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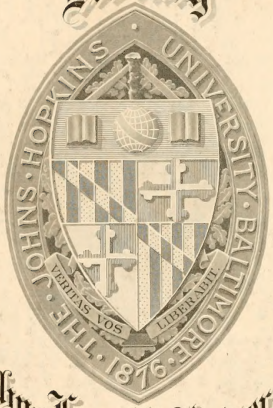

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The History of State Banking in Maryland.

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Contents.

Chapter I.— The Beginning of Banking in Maryland, 1790–1810.

Page

1. Introduction. 5
2. Economic Condition of Maryland. 8
3. Source of Maryland Banking Ideas. 15
4. Early Banks 21
5. A Typical Charter 39
6. Some Features of Early Maryland Banking 50
7. Practice 59

Chapter II.— Banking in Maryland, 1810–1864.

8. Economic and political Condition of Maryland, 1810–25. 68
9. A Period of Expansion, 1810–18. 71
10. An Industrial Experiment by the Banks;

Recharter and Taxation 78
11. Suspension of 1814. 87
12. Crisis of 1818. 100
13. Condition of the Banks after the Crises of 1814 and 1818. 106
14. Practice of the Banks. 121
15. Miscellaneous Legislation. 130
16. Crises of 1825 and 1828. 137
17. Expansion of 1829-36. 143
18. An Attempt to establish a Bank of the State of Maryland 154
19. The Merchants' Bank Charter
a) Uniform Regulation of Banks 161
b) Increased Taxation 170
20. Crisis of 1834 and its Effects 178
21. Crisis and Suspension of 1837. 180
22. Crisis of 1839. 187
23. Practice, 1837-44. 192
24. Effects of the Crises of 1837 and 1839. 197

25. Other Details 205
26. Increase of Banking Capital, 1845–62 [illegible]
27. Expansion, 1845–57. 219
28. General Banking Law 223
29. Crisis and Suspension of 1857. 231
30. The Baltimore Clearing House. 237
31. Suspension of 1860. 243
32. Effects of the National Bank Act. [illegible]
33. Conclusion [illegible]

Appendices.

I. Maryland State Bank Statistics 265
II. Bibliography 274
III. Vita. 274

The History of State Banking in Maryland, 1790-1864.

Chapter I.

The Beginning of Banking in Maryland, 1790-1810.

1) Introduction.

Banking under state charters, the system under which all the banks of the United States, except the two National banks, were organized from the adoption of its Constitution down to 1863, a period of over eighty years, has received very little scientific investigation. The scattered character of the material has been one of the chief obstacles to a detailed enquiry into this large division of our banking history. The advantages to be gained from its study cannot be doubted, and

especially at the present time are its lessons important; when we are in the midst of discussion of reforms in banking and currency, and the necessity of a change in our present system is within plain view. The hope of the present writer is, then, twofold: first, to assist in preparing the way for this larger and more comprehensive investigation by a careful examination of the organization and operation of banks in a single one of the States, Maryland; second, to present in a clear manner the history of banking as a portion of the local history of Maryland, and also to show the influence of the banking development upon the industrial progress of the State.

The line of development will be studied chiefly as it is reflected in the legislative regulations upon banking by the General Assembly of the State, with constant reference to political and eco-

Remote conditions.

The limits of our territory shall be observed as far as the nature of the subject will permit. The period covered extends from the first grant of a charter for banking purposes, in 1790, to 1864, at which date state banking was almost entirely superseded by the establishment of a national banking system, in consequence of which nearly all the old banks reorganized as national banks, and the old system received little further development.

1810 presents itself as a natural point of division, because the closing of the first Bank of the United States and the attendant expansion mark a period in the banking history of the country, which resulted in Maryland in the extension of banks to the counties generally, in contrast to their previous confinement to Baltimore and Annapolis. The removal of the controlling influence of this bank also opened the way to a period of experimentation

in banking quite different in character from the times preceding.

The study shall be confined to "banks" in the ordinary sense, i.e., to those having the three functions of discount, deposit, and issue. "Banking" in the early years, as implying simply the power of issue, under which class would fall Land and other private banks and also early government banks, will not be considered. Savings banks are also omitted from treatment except in so far as they possessed the three functions named.

2) Economic Condition of Maryland.

Banks in the modern sense, as exercising functions of discount, deposit, and issue cannot be said to have existed in America until within twenty years of the close of the last century. Their establishment was called for by the economic needs of the country. It is generally true that in a

New an developing country profitable employment can be found for all obtainable capital. In addition to this, the English colonies were just emerging from a long period of war in which their resources had been greatly exhausted. The revival of industry from the interruption of the war was quick and complete, and capital was in demand for productive purposes far beyond the ability of the country to supply it.

The condition of the circulating medium was also a source of inconvenience and confusion. Prolonged scarcity of money sooner or later forced upon all the colonies the adoption of the expedient introduced by Massachusetts in 1690, namely, paper issues. No proper limit was seldom observed, consequently depreciation ensued, and fresh issues became in the hands of a speculating and worthless debtor class simply the means of freeing from their obligations those who controlled the legislative bodies.

Maryland first issued paper money in 1733 and at the

The process was not carried to the degree of excess which it reached in other colonies, nevertheless much more was issued than reason demanded. Almost any object became a sufficient excuse for an issue, be it war, state loans, roads, bridges, state buildings or whatnot. The intervals between emissions varied from one to six years and the amounts ranged from $150,000 to $1,500,000. After the expiration of a stated term of years, usually about twelve, the notes were to be redeemed. Redemption was commonly made in new notes at fixed rates. The depreciation was usually about six or seven to one of specie.

During the period of the Revolutionary war this paper currency reached its flood tide. The Continental Congress issued at least $200,000,000 which distributed itself thro'out the States[1]. It did not, however, supersede state money in Maryland; both were made legal tender in 1777. The war expenses necessitated increased state issues to aid the state treasury. In 1777 Mary

1 Thomas Jefferson's estimate. Ph. Phillips Amer. paper currency, 2nd Series p. 199

lam issued* 300,000 in bills of credit; in 1780 and this million followed, and in 1781 a third. Frequent and excessive issues made the whole mass depreciate greatly and continental bills became almost worthless. Maryland currency at this time was composed of various issues known as continental bills, convention bills, provincial bills, state continental bills, state money, black money, and red money. Such a quantity of paper in circulation was naturally calculated to drive out the specie, tho' in 1781 the considerable sum of £100,000 was still estimated to be in the state. It became more and more hoarded. Its composition was various and it circulated according to weight: johannes, half-johannes, moidores, English guineas, French guineas, doubloons, Spanish pistoles, French Miller pistoles, Arabian chequins, English milled crowns, other English miller silver, French silver crowns, Spanish milled pieces of eight, and other Spanish, French, German, and Portuguese

gold and silver coins[1]. It is difficult at this time to imagine the confusion inevitably resulting from such a a mixture of paper and metal money.

To relieve this condition of the circulating medium and to assist in the industrial revival which was occurring immediately after the war, fresh paper issues, superseding the old ones and with better provision against depreciation, were believed to be the remedy. Bills for new emissions were urged at every session of the Maryland Assembly, but unsuccessfully. The sound industrial classes preferred existing conditions to the probable perversion of the remedy by demagogues and speculators and the virtual destruction of the effects of all money contracts.[2] The numerous special bills for the relief of debtors at this time indicate also the class which was most clamorous for state issues.

The industrial development of Maryland after the war was something phenomenal. In 1790 her total population was 320,000, distributed over eighteen

1 Scharf, History of Maryland, vol. II, p. 476
2 Cf. ", Western Maryland, p. 538.

Counties nine thousand square miles in area. In the city of Baltimore dwelt 13,500 people, Annapolis was the second city in point of size. The population of the country districts was located chiefly along the river courses and agriculture was by far the most important pursuit. Grain and tobacco were the staples, the for a quarter of a century wheat had been gradually excelling its rival in the race for first place. There was in progress also a keen contest between Maryland and her sister states for industrial supremacy which spurred her to the greatest exertions. Her export trade rose rapidly until by 1794 only one state of the Union exceeded her in this respect. Grain products were the chief articles of export. Large wheat crops stimulated the growth of the flouring industry, and mills were erected upon every available stream. Baltimore became rapidly transformed from a large town to the first port of the United States for grain and tobacco.[1] The continental wars created an unusual demand for American breadstuffs and likewise a

1 Table showing growth of Maryland's export trade:

1791 — $2,239,691.	1803 — $5,078,062	Pitkin's Statistical Area.
1795 — 5,811,380.	1805 — 10,859,480.	
1799 — 16,299,609.	1807 — 14,298,984	
1800 — 12,264,331.	1810 — 6,489,018.	

large part of the European carrying-trade devolved upon American boats. In this traffic Baltimore became a centre of trade with Europe and the Baltimore "clipper", for its superior sailing qualities, became the chief instrument. In consequence also the lumbering and shipbuilding business of Baltimore rose to great prominence.

Baltimore was the natural entrepot for the large extent of country embracing Maryland, Delaware, Western Pennsylvania, Southwestern New York, the Ohio region, and parts of Virginia. To maintain this trade against her rivals, New York, Philadelphia, and Alexandria, communication had to be made as easy and inexpensive as possible. This necessitated the improvement and extension of roads and the building of bridges. Each session of the assembly was besieged with petitions for internal improvements of one sort or another, having for their object the development of the counties and the advancement of agricultural interests. In 1785, for example, there were thirteen state roads projected

1 Maryland Tonnage:—
1793 — 27,300,
1794 — 33,000,
1795 — 66,000,
1797 — 90,000,
1799 — 109,800,

aggregating 504 miles, the estimated cost of which was £20,000. The activity along all lines of industry was intense and the available resources of the state were being strenuously developed. It was at this time that the beneficial influence of banks in other places was brought prominently to the public attention and this method was adopted to assist in Maryland's advancement.

3) Source of Maryland Banking Ideas.

The idea of great national banks was a familiar one throughout the last century. The banks of Venice, Amsterdam, of France, England, Ireland, and Scotland were the chief representatives of this class and they had acquired world-wide reputations. This same idea of a great national bank for each state, whether established to assist the government directly or simply for general economic purposes, was adopted in America, and the Bank of North America was chartered by the Continental Congress in 1781 to help it in its financial difficulties.

Alexander Hamilton considered that it had forfeited its place by accepting a charter from the State of Pennsylvania, and accordingly he proposed in its stead as one of his financial measures the first Bank of the United States.[1] After sovereignty and independence had been won, it was natural that the individual states should proceed along the same line, and accordingly single state banks were established, chiefly for general economic reasons, in Massachusetts (1784), New York (1784), and Maryland (1790).

The Scotch banking system, thro' the writings of Adam Smith, Sir James Steuart, and Montefiore exercised more influence than any other system upon the form and character of organization of early Maryland banks. The favorable criticisms by Smith,[2] Steuart[3] and Montefiore[4] upon the Scotch system did much to alleviate the prejudice against banks and they acquainted the people generally with the leading features of a successful system. When banks began to be earnestly discussed in Maryland about 1790, the Scotch system received the greatest [illegible]

1. Hamilton's report on a National bank, Dec. 13, 1790.
2. Wealth of Nations, Vol. I., pp. 296 ff. (Bohn's)
3. Pol. Econ., Vol. II., Bk. XIII., Ch. 3
4. Commercial Dictionary, Vol. I., pp. [illegible]

of attention, owing, no doubt, to greater familiarity with it thro' the economists just mentioned. The following passages previously referred to,[1] were frequently quoted:[2] "In countries where trade and industry are in their infancy, credit must be little known, and they who have solid property find the greatest difficulty in turning it into money, without which industry cannot be carried on, and consequently the whole plan of improvement is disappointed. Under such circumstances it is proper to establish a bank upon the principles of private credit; this bank must issue upon land and other securities. Of this nature are the banks of Scotland; to them the improvement of that country is entirely owing — although I have represented this species of banks, which I call Banks of Circulation upon Mortgage, as peculiarly adapted to countries where industry and trade are in their infancy, their usefulness to all nations who have upon an average a favourable balance upon their trade, will sufficiently appear on examination of the principles upon which they are established." (Stevens

1 Ut supra, p. 11.
2 Observations on an Act to establish a Bank, Annap., 1805.
Md. Journal and Baltimore Advertiser, Dec. 17, 1784.
" 7

pol. Econ., vol. II., Bk. xiv, ch. 3.)

"I have here attempted that the trade of the city of Glasgow doubled in about fifteen years after the first creation of Banks there; and that the trade of Scotland has more than quadrupled since the first creation of the two public banks of Edinburgh, the Bank of Scotland (1695) and the Royal Bank (1727). Whether the trade, either of Scotland in general, or of the city of Glasgow in particular, has really increased in so great a proportion during so short a period, I do not pretend to know. If either of them has increased in this proportion, it seems to be an effect too great to be accounted for by the operation of this cause. That the trade and industry of Scotland, however, have increased very considerably during this period, and that the banks have contributed a good deal to this increase, cannot be doubted." (Wealth of Nations, vol. I., pp. 296 ff. Bonar.)

Following are some of the more important points of similarity to the Scotch system which were adopted in Maryland: Most of the early Scotch banks were organ-

by private capitalists; this system was generally followed in Maryland until 1817, when it was prohibited by law[1] in order to prevent the increase of banking companies.

The large extension of branch banking is a distinctive feature of the Scotch system. This principle was introduced into Maryland in 1804, but it has received comparatively little development. No bank in Maryland has had more than two branches performing a regular banking business, and but a limited number have had branches at all; these were organized early. Perhaps the sections underlying agricultural districts were developed more slowly than they might have been under a system of branch banking. The expense of operation of independent banks is greater than of branch banks and at the same time the funds are managed less effectively, and the competition is greater.

Large capitals were a feature of early Maryland banks, as of the Scotch banks. The Bank of Maryland had $300,000 paying capital; the Bank of Baltimore had received the

[1] Md. Laws, 1817, ch. 156.

legislature to more than $[illegible], but was limited to $[illegible]; $[illegible] was the capital of the Farmers' Bank of Maryland, and $3,000,000 that of the Union Bank of Maryland.

The payment of interest on deposits was begun by the Farmers' Bank of Maryland in 1804, for the first time in the United States. This plan later became general. The peculiarly Scotch feature of cash credits was also introduced by this bank. In each case the issue of notes was free and based upon general credit, as opposed to specific funds. The maximum rate of discount was fixed in Maryland; in Scotland the minimum rate. Maryland banks generally could loan upon real estate.

In their relations with each other the banks were prompt and exacting; there were regular and frequent exchanges, in fact daily exchanges became the practice in Baltimore very early.[1] In the general attitude of the State toward the banks there was no [illegible]. The charter regulations were of by no means a strict nature in either case; the public was virtually dependent

1. Bank of Md. Conspiracy, T. Ellicott, p. 3.

upon the will of the officers for proper banking facilities and good administration.

The influence of the Bank of the United States, established 1791, was not great; some principles of minor importance which will be noticed hereafter, may perhaps have been adopted in Maryland from its example.

4) Early Banks.

The economic condition of Maryland during the last quarter of the eighteenth century has been briefly described above. It will suffice here merely to call attention again to the remarkable industrial development that which the state was passing. The specie in circulation was limited in amount and heterogeneous in character. The state bills of credit of which there had been such a flood during the war, were gradually passing out of circulation, and the legislature persistently refused new issues. The circulating medium was becoming more and more contracted under

1 ut postea, p. 41.

these conditions the demand for state bills of credit began to change to one for a bank.

The first attempt to incorporate a bank in Maryland occurred in 1782 when James McHenry, esq., introduced into the Senate "an act to establish the credit of a bank" in Baltimore. The bill was considered and passed the Senate; the House of Delegates, however, rejected it.[1] Further particulars is not to be learned about it.

In 1784 the agitation was again revived. The following advertisement appeared in the Baltimore papers:[2] "Such of the inhabitants as are desirous of promoting the establishment of a Bank in the Town of Baltimore are requested to meet....., when proposals for carrying into immediate effect an institution so essentially necessary to the commercial interests, not only of the town, but of the state in general, will be laid before them". The townspeople entered heartily into the scheme; proposals for the bank were immediately produced and subscriptions solicited.[3]

The proposals explain in the following words the

1 Journal of Senate, Nov. Sess., 1781, pp. 20, 22, and 31.
2 Md. Jour. and Balto. Advertiser, Nov. 4, 1784.
3 " " " " " , Nov. 19, 1784

reason for the institution of a bank: "The experience of wise commercial nations has fully evinced the utility of well-regulated Banks. The advantages resulting from the Bank of North America, established in Philadelphia, have already been manifest, and point out to this state the evident necessity of an institution which naturally increases the medium of trade, promotes punctuality in the performance of contracts, facilitates the payment of public dues, furnishes a safe deposit for cash, aids the anticipation of funds on paying common interest, advances the value of country produce, and facilitates the negotiations of the foreigner, while it promises an advantage to the stockholder."

The bank was to be styled the "Bank of Maryland," and the capital stock proposed was $300,000, in shares of $100 each, payable in gold or silver at the real value. The sections of the articles of association relate to the subscription and payment of shares, the general powers and salaries of directors, and penalty for fraud and embezzlement.[1]

1 These provisions are recited in the charter of the Bank of Maryland and may be found post p. 47ff.

election of directors was allowed to take place after the subscription of one hundred and fifty shares had been made. In case the state by law made the bank notes receivable in payment of taxes and other public dues, the legislature was to have the right to examine the affairs of the bank and was at all times to have access to its books and papers.

Within ten days one hundred and fifty shares had been subscribed, so that they were able to proceed to the election of directors.

A lively discussion was carried on between the friends and opponents of the bank until the matter was finally decided by the legislature. The merchants of Baltimore favored it. The agricultural and speculative elements opposed it; the former, because the short time of loans practically excluded them from borrowing, the rates of discounts would be high. They also argued that it would draw capital from the country to the city and thus check improvement and agriculture. The latter, the speculative class, preferred state issues.[1] It was objected also that it would aid only

[1] Md. Gour. and Balto. advertiser, nov. 29, 1784.

a few. The 300 shares which were subscribed were distributed among but seventeen persons.

A petition for a charter was presented to the Maryland Senate at the November session, 1784. A committee of the House of Delegates reported favorably upon it and a bill was brought in to charter a bank, but it was finally said over until the next session of the Assembly and was not called up again.

For six years no further attempt was made to start a bank in Maryland. 1789 and the early part of 1790 was a period of considerable depression in the State. A revival, however, began in the Spring of 1790 when the extraordinary demand in Europe for food products, resulting from the breaking out of the French Revolution, began to be felt in America. Baltimore, the first grain unflowing port of America, received great stimulus from the rapid rise in the price of wheat from eighty cents to one and a quarter dollars per bushel. All branches of industry were greatly quickened.

Credit facilities at this time were very meagre.

(in advance could usually be obtained upon tobacco after it had been passed in the warehouses which were regulated by the State. The State inspectors issued warehouse receipts stating the quantity and quality of tobacco in custody. These inspectors' bills could always be exchanged for good bills in London, and they furnished the medium for the large commercial transactions. This means of anticipating the return from crops was, however, limited, since the State undertook the inspection of tobacco only and not of wheat and flour also, which at this time exceeded the former in amount.

As a result of these conditions an application was made by sundry citizens to the November session of the Assembly for a charter for a bank to be called the "Bank of Maryland". In this case the petitioners did not organize a partnership under articles of association before applying for a charter. Perhaps this may have been due to a desire to prevent public discussion of the project by enemies of banks who had been successful

in preventing the passage of the charter in 1784. Very slight notice of the bank appears in the papers before it had received a charter.

The assistance of industry and commerce was stated to be the motive in establishing a bank. The bill had little difficulty in passing; the final vote in the House of Delegates was fifty one affirmative to seven negative[1]. The capital stock was fixed at $300,000; subscriptions were opened in Baltimore, December 10, 1790, and within fourteen days $200,000 was subscribed[2], the amount necessary to be subscribed before the election of directors might occur. During the ensuing year this amount was paid in and the bank began operations; the remainder of the capital was called in within the course of the following four years. In the payment of subscriptions English, French, Spanish, Portuguese, and Dutch gold coins were received at 6 s. 8 d. the pennyweight; German and Danish gold coins at 6 s. the pennyweight.[3] Few of the notes of the Bank of North America at Philadelphia, and none of those of the Bank

1 Journal of House of Delegates, 1790, p. 34.
Md. Laws, 1790, ch. 5.
2 Griffith, Annals of Baltimore, p. 128.
3 [illegible] Jour. and [illegible] Advertiser, [illegible] 5, 1791.

of New York or Bank of Massachusetts, but reached Baltimore at this time.

An addition to Baltimore's banking capital occurred in 1792 when the Bank of the United States established a branch at that place which annually operated a capital of about $500,000.

In 1790 the Maryland Legislature granted a charter to the Bank of Columbia which was to be located in the District of Columbia. The avowed object of the formation of the bank was to assist in the preparation of the District for occupancy by the National government. The original capital was $1,000,000. It immediately withdrew from the jurisdiction of Maryland.

During the years 1790 to 1800 the Bank of Maryland was able to declare annual dividends of twelve per cent. Its capital was far below what it might with ease have employed. In 1795 an unsuccessful attempt was made to double this capital.[2] As a substitute it was proposed to establish another bank which might consolidate

1 Niles' Annals, 179.
2 Griffith, Annals of Baltimore, p. 128.
Note: exposition of the leading principles of a Bank.

with the Bank of Maryland, upon the consent of both parties. This clause was stricken out and an entirely separate institution received a charter in 1795 as the Bank of Baltimore, for the Bank of Maryland became a subscriber to its stock.

In the petition for a charter the advantages which were expected to be derived from the new institution were clearly set forth. "The petitioners, considering that the banks in Baltimore Town, from the smallness of their capital and other causes, do not come up to the end for which they were established, viewing more banks with capitals adequate to the trade of a country, as instruments for the excite a greater degree of industry, to extend commerce, to produce a more favorable balance of trade, obviate usury, and lower the interest of money; and that these effects have invariably followed in a greater or less degree their establishment; they could not avoid noticing the utility and propriety of combining together to erect a new bank in Baltimore, with a capital commensurate to the mental

1 Md. Laws, 1795, ch. 27.

and growing trade of that prosperous town. The petitioners, in fact, considering that a bank of sufficient capital, must be the means of attracting into the state considerable sums of money, from imported in its stock which would not otherwise or without such an institution make any part of its wealth, and considering that every sum brought into the state, to purchase stock, will be so much added to its circulating specie and its capacity to carry on improvements, they deemed it a consequence that the bank be so framed as to have a just claim to the constant protection of government and the confidence of the public". The petition was signed by fifteen parties and submitted to the legislature, as specific a brief outline of a charter[1].

The capital of the bank was fixed by the legislature at $1,200,000, though the petitioners asked for immediate at $3,000,000 with provision for increasing it ultimately to $4,000,000, as the growing character of the town demanded more banking accommodations.

The two banks had an aggregate capital of $1,500,000,

1 "Brief exposition of the leading principles of a Bank, etc.

to which there was added by the United States branch bank at Baltimore about $500,000. This amount could be very actively employed in a town whose export trade alone was of an annual value of more than nine million dollars and which was still rapidly growing, to say nothing of other commercial and industrial operations. Manufacturing was at this time advancing apace. A climax was reached at the end of the eighteenth century; Maryland's total exports for 1799 were $16,300,000. After this time there was a decrease due chiefly to the narrowing of the market for American bread stuffs by the restoration of peace in Europe in 1802, and also to the competition of Philadelphia and New York for Baltimore's trade. By 1803 the lowest point had been reached; exports had fallen to $5,100,000; there was a general stagnation. The relapse was in large measure charged to Baltimore's lack of banking facilities in comparison with her sister cities.[1] It was estimated that $120,000 of good paper was weekly rejected by the Baltimore banks. The parties

1 Federal Gazette and Balto. Daily Advertiser, Jan. and Feb. 1804.

banking accommodation were compelled to patronize brokers who charged them excessive rates. Trade was thus driven away. In rivalry with Philadelphia and Alexandria, Va., was very keen. Pennsylvania at this time had six banks, four of which were in Philadelphia, whose total capital amounted to $6,000,000; the banking capital of New York was $6,500,000, operated by seven banks; yet the trade of these places was normally about the same as Baltimore's. Within ten years the circulating medium of Virginia, Pennsylvania, and New York had increased about fifty per cent; it was estimated, whereas in Maryland it had remained almost stationary.[2] Baltimore saw Philadelphia drawing part of the West and Northern trade; a considerable amount of the Eastern Shore products were going to Alexandria.

To assist Baltimore from the depression and to render help. There nearly equal to the rivals in banking capital, the Union Bank of Maryland was organized. The articles of association appeared Feb-

1 Federal Gazette and Balti. Daily Advertiser, Feb. 23, 1804
2 Ibid.

many 24, 1804[1]; on April 11 of the same year books were opened for subscriptions of stock, and the amount requisite to enable them to proceed with the election of directors, was subscribed in one day. It began business in June, 1804, as a limited partnership or company, and it was thus the first bank in Maryland to begin operations without first having procured a charter. The Merchants' Bank of New York and the Philadelphia Bank have been prominent examples of this in other states.

The capital stock of the bank was $3,000,000, in shares of $100, of which $2,312,150 was paid in. Subscription books were opened in the counties and five hundred shares were allotted to each county for subscription; Anne Arundel was allowed a thousand. Senators and delegates were made county commissioners in charge of the subscriptions. Five thousand shares were reserved until after incorporation, so that the state, if it desired, might subscribe. The five latter measures were probably taken as a means

1 Federal Gazette and Balto. Daily Advertiser, Feb. 24, 1804.

to procuring votes for the charter, tho' there appears to be no evidence that other inducement was offered.

The articles declared the liability of the Company to be limited to their capital stock, except in case the directors declared dividends beyond the profits, in which case the directors were personally liable for the excess. Land, ships, and Merchandise could be held only as security. The partnership was to terminate in 1825, unless a charter were received before that time. Other provisions relating to voting and the election of directors are essentially the same as those of the charter to be described in the next section.

All of the banks thus far established were in Baltimore and were preëminently for the aid of its commerce and manufacture. The agricultural needs had not yet received the necessary attention. With a view of assisting the farming class especially, the Farmers' Bank of Maryland was organized in August 1804.

at Annapolis, and a branch bank was located at Easton, and later (1807) another at Frederick. In addition to benefiting the agricultural interests, it was hoped that it would also assist in Annapolis a commercial development parallel to that of Baltimore, and that it would divert from Baltimore to Annapolis the amazing free capital of the state; Easton, too, it was hoped to develop into an entrepot for the southern part of the Eastern Shore, and thus cut off the flow of Maryland produce to Alexandria.

It started as a private partnership. The articles of association appeared early in August, 1804. A lively discussion was provoked. It was urged that the agricultural interests did not require and could not support such an institution, and that the commerce of Annapolis and Easton were not of sufficient magnitude to need it.[1]

At this time the application of the Union Bank for a charter was being bitterly opposed by the

[1] Observations on an act ... to establish the Farmers' Bank of Maryland

friends of the old banks who wished to retain the monopoly of banking in their hands. The Bank of Baltimore had been paying regularly from ten to twelve per cent in dividends, and its stock was quoted at $370 (par $200). Union bank stock was selling at eight to ten dollars advance, tho it was still unincorporated.

The two new banks were able to obtain charters from the December session of the Assembly, 1804, by handing their forces and working for each other in the Assembly.[1]

At Charlestown, a town created by act of Assembly and which scarcely had an existence except on paper, a private bank was organized in 1804 under the title of the "Fisherman's Bank of Charlestown; a branch was placed at Turkey Point. The nominal capital was $1,000,000. A charter was never obtained. It was largely a means of booming the town.[2]

The renewal of the Continental wars in 1804 again made a market for Maryland products,

1 Federal Gazette and Baltimore Daily Advertiser, Aug 28, 1804
2 " " , Aug. 7, 1804

and commerce and manufacture which had sunk so low in 1803, had by 1806 again almost attained that degree of prosperity which was reached in 1794. The export-trade in 1806 amounted to fourteen and one half million dollars.

On the crest of this wave of prosperity the Mechanics' Bank of Baltimore was chartered in 1806 to give aid especially to practical mechanics and manufacturers. The capital was $1,000,000, of which $614,000 was paid in, including $94,625 subscribed by the state.[1]

By 1807 Baltimore and Annapolis, the most populous and leading industrial cities of the state, were the seats of all the banking institutions known therein. The Farmers' Bank, at Annapolis, one of the aims was to aid agriculture. In 1807 a general extension of banking advantages to the various counties by creating banks in the most important county town, was begun. The first bank [illegible]

1 Griffith's Annals of Baltimore, p. 179.

was the Hagerstown bank in Washington County; its capital was $250,000. In the course of a few years banks were located in nearly all the counties of the state.

Table of the Chartered Banks of Maryland on January 1, 1810.

Name of Bank	Estab'd	Authorized Capital	Paid in Capital
Maryland	1790	$ 300,000	$ 300,000
Baltimore	1795	1,200,000	1,199,250
Union	1804	3,000,000	1,845,560
Farmers'	1804	1,200,000	819,575
Mechanics'	1806	1,000,000	555,970
Hagerstown	1807	250,000	250,000
Totals		6,950,000	4,970,355

5) A Typical Charter.

We shall defer consideration of the charter for a ... ment to notice briefly the legal basis of banking privileges in Maryland. The sources of this privilege were the common law rights and special charters granted by the State. In some of the states of the Union the common law privilege arose from an early date restricted, both to secure the public safety and also on account of the granting of monopoly privileges to special companies. This, however, did not occur in Maryland until 1842. The two systems coëxisted throughout the early part of our period, tho' in 1817 a partial restriction of the common law right was made. At this time it was made unlawful for persons to associate for banking purposes without first having procured a charter.[2] The effect of this law was to prevent companies with large capital from engaging in banking without charters, but it did not apply to individuals. Persons issuing notes were in 1831 made subject to the same laws as banks in regard to the denominations of

2 Md. Laws, 1817, Ch. 156.
1 Upshur, p. 190.

the notes allowed to be issued, but the power to issue remained intact until in 1842 the State government removed it by legal enactment.[4]

A change occurred in the legal basis of banking rights in 1864 when the National government passed a general law regulating banks. The reorganization of nearly all Maryland banks under this law marks the limit of our study. Free banking under a general law was frequently under debate in Maryland during the forties and fifties and in 1852 a bill was introduced into the legislature to establish such a law, but its passage was defeated.[2]

With this preliminary digression we will return to the charters. Excepting the charter of the Bank of Maryland, the charters of all Maryland state banks followed closely the form of that of the Bank of Baltimore which was established in 1795, the first bank in the state. Special attention was given by the House of Delegates to the form of the charters,[3] and it deserves as a type for

1 Md. Laws, 1831, Ch. 317.
2 Ut supra, p. 211.
3 Journal of House of Delegates, 1795, p. 57 (Jan. 10).
4 Ut supra, p. 190.

the charters of later banks. It is the better suited for examination for these reasons.

Various points of similarity between it and the charter of the first Bank of the United States indicate that the latter may have been used to some extent as a model, tho' no outside evidence has been found to substantiate this view. The following points of similarity may be mentioned:

1 The system of voting; the power of the majority limited.
2. Rotation of directors.
3. Similar regulations regarding real estate.
4. Personal liability for debts exceeding a limited amount.
5. Similar provisions regarding trade.

The following is an abridgment of the leading articles of the charter:

The location, capital, and number of shares were prescribed, and thirty-six persons were designated to receive subscriptions of a stated number of shares in Baltimore and each of the eighteen counties. The books were to be kept open for subscriptions not-

less than three days nor longer than three weeks. Stock subscribed were deemed the property of the person in whose name it was taken in spite of all agreements to the contrary. Any person was allowed to subscribe not more than twenty shares in one day, tho' if too many shares were subscribed, the largest subscriptions were to be reduced so that all subscribers might have some stock. Unsubscribed shares were to be kept open for subscription in Baltimore after four weeks notice in the papers.

Payment of subscriptions was divided into four parts, and the first part was subdivided into thirds, of which the first third was payable to the commissioners of Baltimore previously to the election of directors, after two months notice. The directors, when elected, were to call in the remainder by December 1, 1797, tho' any subscriber could pay up his shares in full at any time before this limit - but was to draw dividends on the amount paid in. However failure to pay the first third forfeited the right to the share.

The shareholders were to elect annually a [illegible]

fifteen directors who were to choose one of their number as president - so soon as three thousand shares had been subscribed and $150,000 paid in in specie, notice was to be given by the Commissioners and the election of directors effected. The bank was allowed to begin operations when $300,000 had been paid in specie, a house and necessary appliances were to be provided by the Commissioners. The directors were empowered to appoint officers, clerks, and servants, and to fix their compensation.

They were created a corporation with the usual powers and the following provisions were to be the fundamental articles of its constitution:

1) The number of votes to which each stockholder was entitled, was according to the number of shares he held, in the following proportion: one vote for each share up to two; one vote for every two shares from two to ten; one for every four from ten to thirty; one for every six from thirty to sixty; one for every eight from sixty to one hundred. No one could have more than thirty votes. Shares had to be held three calendar months previous to the day of election to confer the right of suffrage.

Stockholders actually resident in this the United States and none others, were allowed to vote by proxy.

2) One-third of the directors in office was ineligible for reëlection the next-succeeding year; the director who was president could always be reëlected.

3) Directors had to be citizens of the United States. No director of another bank could be a director of this bank. There were to be half-yearly dividends of profits. The stockholders were to receive an annual statement from the directors of surplus profits and of debts unpaid at the expiration of the original credit.

4) Compensation of the president and directors was in the hands of the stockholders.

5) Nine directors were to constitute a board for the transaction of business.

6) Six hundred shares of stock, $600,000, were to be reserved for the U.S., of which not over $500,000 might be paid in in any one year.

7) A meeting of the stockholders could be called by sixty or more stockholders representing at least two hundred shares. Ten days' notice of the meeting had to be given and its object specified

8) Neglect to pay any instalment of the capital for period of longest of any dividend having accrued prior to the time of making the payment or during its delay.

9) Bond of at least $50,000, with two or more acceptable sureties, was required of each cashier or treasurer.

10) The corporation could only hold such lands, tenements and hereditaments as were necessary for its immediate accommodation in the transaction of its business, and such as were bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted, or purchased at sales upon judgments which had been obtained for such debts.

11) The corporation could not directly or indirectly deal in anything except bills of exchange, promissory notes, gold or silver bullion, or in the sale of the produce of its lands. The effect of section 10 was not to be annulled by this section. Not more than six per cent. per annum could be taken on loans and discounts.

12) A loan of more than fifty thousand dollars to the state of Maryland, to the United States, or to any state, or of any municipal

whatsoever to a foreign state, requires legislative sanction.
13) Stock not transferable according to the by laws of the corporation.
14) Bills obligatory and of credit made to any person or persons were to be assignable by endorsement; bills or notes of the bank payable to bearer were made negotiable by delivery only.
15) A prescribed form of oath for directors and cashier or treasurer.
16) If the corporation dealt in any goods whatsoever contrary to this act, treble the value of the goods so dealt in was to be forfeited.
17) If loans were made in violation of the twelfth article, treble the amount so loaned was to be forfeited.
18) The total amount of the debts which the corporation might at any time owe, not considering deposits for safe-keeping as a debt within the meaning of this provision, might not exceed double the amount of the capital actually paid in to the bank. Directors under whose administration any excess of current were made personally liable for it, in addition to the liability of the corporation. Directors present when the excess was created or who dissented from the resolution creating it, might exonerate themselves from such liability

by giving notice of their absence or dissent to the governor of the state or to the stockholders.

19) The treasurer for the Western Shore was to be furnished annually, or oftener if required, with statements of the amount of the capital, the debts due to and from it, the deposits, the notes in circulation, the cash in hand, and profits. He was given power to inspect the books and accounts of the bank, so far as was necessary relative to the public safety and the profits belonging to the state, but he was not allowed to inspect private accounts.

20) Whenever the state held $6,000 stock, it was entitled to appoint two directors, to be elected each by the Senate and House of Delegates.

21) The capital stock and funds of the bank were declared personal and not real estate.

22) The bank was prohibited from issuing notes of a less denomination than five dollars.

The duration of the act was limited to twenty years.

The charter of the Bank of Maryland, established in 1790,

differed materially from that of the Bank of Baltimore. The privileges granted were greater and there were no provisions corresponding to the fundamental articles of the charter of the Bank of Baltimore. The subscription of the capital, 300,000 was not allotted among the counties. Provisions regarding the capital, payment of subscriptions, voting, election of officers were similar to those of the charter described. A committee of three chosen quarterly from the directors were to inspect the accounts of the bank weekly. The liability of stockholders extended only to the amount of the stock. The charter was perpetual.

There were special provisions relating to fraud, robbery, and debts. Any officer or other person holding stock who was convicted of fraud or embezzlement forfeited his stock to the company, in addition to the remedy which might be had in the name of the Company. Persons convicted of forging or counterfeiting were to be adjudged felons, and subjected to punishment at the discretion of the court extending to death not more than seven years after date

Stealing the notes of the bank was made felony, punishable in like manner as of other goods of the same value had been taken.

A special remedy was provided for the recovery of debts. Demand was to be made in writing upon the delinquent. After the lapse of ten days, at the request of the President of the bank, the clerk of the general court or of the county court where the defaulter resided, was instructed to issue a capias ad satisfaciendum, fieri facias, or attachment by way of execution, on which the debt and costs might be levied, by selling the property of the defendant. Such execution was not liable to delay by a supersedeas, writ of error, appeal, or injunction from the chancellor, provided no part of the debt was in dispute.

No limits were prescribed to the debts of the bank, none to its issues. It was not required to make an annual report to the legislature, probably because the state had reserved for itself no share in its stock.

1 Mi. Laws, 1792, ch. 1.

(1) Some Features of Early Maryland Banking.

The monopolistic element in banking was especially distasteful in Maryland. A clause of the state constitution discourages monopolies.[1] Two means were adopted to render banks of a public character. First, the state reserved the power in the charter to subscribe a specific amount to the capital stock of each bank.[2] As early as 1803 the state utilized this privilege as an investment for its unemployed funds by paying up the amount of 220 shares, out of 600 reserved, in the Bank of Baltimore.[3] The state did not subscribe in all the banks throughout the state, but by 1811 some stock had been paid up in each of the city banks and in three country banks. The state subscribed to the stock of no banks established after 1811. The maximum amount reached by the state subscriptions was $540,000; the revenue which it yielded ranged from thirty to forty thousand dollars per annum.[4] The amount reserved for subscription by the state varied from one-third to one-tenth.

1 Dec. of Rights, 39th Sect.
2 The Bank of Maryland is excepted; its stock was wholly private.
3 Md. Laws, 1802, Ch. 58.
4 Annual Reports of Treasurer for the Western Shore.

In a second manner the interest in banks was made general and they were prevented from becoming too great a power in the hands of a few. The subscription of the capital stock of the early banks chartered by the state legislature, unless they had been previously organised as a partnership, was apportioned among the twenty-two counties of the state[1]. A committee, usually of three, was appointed to receive subscriptions at the county seat of each county; persons non-resident in the county could not subscribe until after the lapse of a specified time. Shares remaining untaken at the expiration of the time limit could be subscribed by any one, and if they still remained untaken, they were offered for subscription in Baltimore after notice given in the papers.[2]

The allotment of the stock to the various counties for subscription was of course impossible when the banks had been in existence as partnerships before a charter had been applied for. In such cases their stock was already subscribed. Whenever the distribution of their stock

1 Q. Charters of Bank of Baltimore, Farmers' Bank, City Bank, etc.
2 The same effect was produced, in case too much was subscribed, by reducing the largest subscriptions in favor of the smallest, so that such subscribers might have at least one share of [illegible]

were objectionable to them, they avoided it by organising as a partnership before asking for a charter. Of the eleven banks which had been chartered in Baltimore before 1812, six started as private partnerships, their [illegible] were obtained by most of these, the capital stock was distributed throughout the state for subscription. In 1819 it was forbidden by law to organise a banking company without having first applied for a charter! The object of the law was to prevent the rapid increase of banking organizations. However, by this time the establishment of banks had but few enemies left to put at rest the cry against the privileges and against the absorption by the city of the free capital of the country districts.

In 1795 an attempt was made to introduce into Maryland the principle of state participation in the profits of banks, in addition to the dividends upon its stock. It was proposed that one-half of the excess of the profits of the Bank of Baltimore over ten per cent. [illegible]

1 Md. Laws, I, 1, c. 56.

amount should be paid to the state.[1] A lengthy discussion was at once provoked in the Maryland legislature, but it was finally rejected, perhaps to compensate for the refusal of the legislature to grant as great privileges as were asked for.

The right to issue promissory notes to circulate as money is in the case especially granted, inasmuch as at this time the common law privilege of everyone to issue has not been restricted.[2]

The only limit placed upon the issue of notes was that the total of debts which a bank might at any time owe, should not exceed twice the amount of the capital actually paid in. This limit was of little effect. Only in one or two cases of the most reckless banking did the debts approach this limit. The personal liability of the directors for any excess of debts over this amount was, therefore, only nominally in force, since there was little probability of reaching this mark in practice. However, the idea of personal liability was made more common, and

1 This principle is a feature of the charter of the Riksbank of Sweden, established in 1668.
2 Cf. at supra p. 39.

thus the path to a future repayment was made easier.

The clause of the charter which required that the capital be paid in legal money[1] proved a very salutary one; usually one-fourth of the nominal capital was required to be in hand in specie before operations could be begun. This compelled the banks organized between 1795 and 1811 to be founded upon a solid capital. Up to this time no evidence can be found that the instalments of capital were paid with stock notes. The speculative spirit had not yet manifested itself.

The business which the banks might engage in was carefully restricted to banking operations exclusively, in which were included the functions of discount, deposit, and issue. The holding of real estate was expressly prohibited, except so far as it was necessary for the conduct of business, and except also loans mortgaged or purchased in satisfaction of debts or held as security. Real estate was not allowed to remain in the possession of the bank more than three years. It was not forbidden to loan upon

1 Gold, silver, or the notes of specie-paying banks

mortgage security, in fact- in the case of the country banks it was expressly permitted to loan upon land; The Mechanics' bank also was allowed to loan to practical mechanics and manufacturers on property security upto one-eighth of its pain-in capital, but no loan was to be made for more than $300 nor for longer than two years. Commercial operations, a most tempting field for Manhattan capitalists, were usually especially forbidden to the banks.

The monopoly of banking was not given to the chartered banks, tho' they enjoyed an advantage over unincorporated banks thro' their limited liability.

By virtue of the state's subscription to the stock of the banks, two means of inspection into their operations were furnished. As a stockholder the state assumed the right to participate in the direction of the banks by appointing a part of the directors, usually from one to four, keeping pace with the amount of the state's stock. These directors, by the law of January 21,

1702, had the same rights, powers, and privileges as those directors elected by the stockholders. In the same place the annual reports, required to be rendered to the treasurer for the Western Shore, gave the public some idea of the condition of the banks. To be sure, the primary object in each case was not protection of the people at large, but simply the safety of the State's stock.

In 1806 a provision was introduced into the charter of the Mechanics' Bank of Baltimore requiring a reservation of one per cent. of its capital from surplus profits as a contingency fund. The principle became common by insertion in other charters, but it did not appear in all. The fund was not applicable to any particular sort of liability, but to all in general. It might easily have become an important safeguard by being required of all the banks and by being placed in the hands of a state officer. It met the liabilities not otherwise provided for of insolvent banks. This is, in fact, the substance of the Safety Fund Law of New York, adopted in 1829.[2]

1 Md. Laws, 1806, Ch. 141.
2 N. Y. Senate Journal, 1829.

In 1793 an act was passed making the forgery, or counterfeiting, or altering, or knowingly passing such notes of any bank of the United States, felony and punishable as if goods of like value had been stolen. This simply made general the application of the law passed with reference to the Bank of Maryland.[2] In 1797 the same was applied to the forging of checks and orders.[3] Forgery on a bank was made punishable by death in 1806.[4] But this extreme measure was repealed after the lapse of five years.[5] No executions occurred under it. The much milder penalty of five to ten years in the penitentiary was first upon in 1809.[6]

In many respects as in most provinces these early ideas of banking were crude, yet little else could be expected in a new country; as with other institutions, so with banking, the elements were imported, but the development was made to suit American conditions; experience was the teacher. Aside from the vagueness of the existing ideas of banking, political influence frequently had much to do with [illegible]

1 Md. Laws, 1793, ch. 35.
2 Ut supra, p. 48.
3 Md. Laws, 1797, Ch. 44.
4 " " , 1806, " 84.
5 Md. Laws, 1808, ch. 72.
6 " " , 1809, " 138.

or less favorable charter. State delegates and senators were made county commissioners to receive subscriptions in the various counties with a view to procuring their influence in the Assembly on the vote for the charter.[1] Political considerations had somewhat weight, too, in the discussion concerning the charter of the Bank of Baltimore,[2] but no direct evidence of corruption has been found; however, complications with political parties were scarcely calculated to assist in the formulation of sound banking principles.

The state did not insist upon its privilege of supervision, granted to it as a stockholder. The requisition of an annual report and the right to inspect at any time might easily have been made by the state authorities a means of wholesome criticism upon the banks, if it had been properly enforced, but the banks payed little attention to it, and repeated acts[3] requiring the reports availed little until 1826, when a penalty was imposed for non compliance.[4]

1 Federal Gazette and Balto. Daily Advertiser, Feb. 24 ff., 1819.
2 A Brief Exposition, etc.
3 Resolution 15, Md. Assem. Ses. 1818
   " 47, " " , " 1819.
4 Md. Laws, 1826, ch. 215, Sect. 5.
[illegible]

The law prescribed no security for notes or deposits, and practically no limit for issues. The public was really at the mercy of the bank. The capital was required to be paid in gold or silver or the notes of specie-paying banks, but no method of examination was prescribed to see that the law was complied with. A contemporary writer[1] repeatedly affirms that the capital was paid in specie bona fide, and that stock notes were not used.

To protect the interest of the stockholders 1/3 to 1/5 of the board of directors was made ineligible for reëlection. An annual report kept them informed of the condition of the bank.

Practice.

The presence in Baltimore of the branch of the Bank of the United States had a very salutary effect upon Maryland banks. The policy of the Bank of the United States was always to restrict as far as possible state bank circulation. This was well explained by the [illegible]

[1] Niles

return of the state banks' notes received from its counters. Naturally the state banks were strenuous in their objections to what they called the oppression of the "Monster" bank, but on the whole the competition was very beneficial in reducing losses and in facilitating the balancing of daily exchanges between the banks.

The directors were usually men engaged in mercantile pursuits who were broadly acquainted in business circles and who knew the standing of parties liable to call for loans. To secure a broader territory from which to draw its patrons, the Farmers' Bank of Maryland adopted the plan of having a director from each county who might be able as an intermediary to extend banking facilities into his county and who might also have the necessary knowledge of parties of his locality as to give the bank for recommendations.

To prevent the banks from falling into the hands of a few individuals, a system of rotation of directors prevailed, as has been mentioned[1]. The danger in this was that—

[1] Ut supra, pp. 43 and 44.

aboard not sufficient, skill in balancing offsets might be resorted to in charge of the bank. This, however, seems to have been avoided, since any diminution of the percentage ineligible for rediscount was, when reported to the stockholders, regularly opposed by them, whereas they would have been very sensitive to a diminution of the dividends from lack of skill in management.

The directors, since they were usually men in mercantile or commercial business, especially appreciated banking facilities and in many cases they were the ones who most needed discounts, yet there can be no doubt but that they enjoyed especial favors at the bank both in respect to rates and amounts of discounts. In the charter of the farmers' bank of Virginia a clause was inserted which prohibited directors from receiving discounts on terms different from those upon which others receive them.[2] A recent study was immediately taken placing a definite limit to the amount of discounts which directors might receive

1 Va. Laws, 1860, ch. 23
2 " " 1864, ch. 61.

In the case of the Farmers' bank the limit was placed at $100 a week. In the Mechanics' bank of Baltimore the total was fixed at $400, renewable at discretion. The Hagerstown bank allowed directors $50 a week discounts.

There was, too, considerable dissatisfaction with the banks owing to the fact that they confined their discounts largely to a small number of friends, and did not grant accommodations to all simply on the merit of the paper offered. This charge was urged especially in the early years of banking in Maryland when the banking capital was altogether inadequate to the needs of the community. The Bank of Maryland and the Bank of Baltimore became very objectionable in this respect, and this, in fact, furnished a strong argument for the creation of the Union Bank of Maryland.[2]

The board of directors for the transaction of business usually consisted of from six to nine, of whom the president was one; but four or five directors were allowed to constitute a board for the purpose of making discounts only.[3]

1 Md. Laws, 1807, ch. 26.
2 Federal Gazette, etc. Apr. 10, 1804.
3 Md. Laws, 1814, ch. 9.
" " , 1824, " 61.

Counts were made on two days of the week, and two acceptable securities were required on each paper. The maximum rate which it was lawful for the banks to charge on loans and discounts was fixed at six per cent. per annum.[1] If information was given and supported to the satisfaction of the majority of the board or quorum of directors that any director or other officer has in any way been concerned in taking usury, he lost his seat.[2] After 1806 this provision was inserted in the charters.

In respect to discount-time the provisions in the various charters varied, the country banks as a rule being allowed to discount for a longer time than city banks, and those discounting on real security for a longer time than those taking only personal security. There was no general law on either the time or rate of discount, but after 1806 each was regulated by a clause of the charter. The Mechanics' bank was allowed to discount notes or bills on personal security for 120 days; on property security the maximum time was

1 Md. Laws, 1807, Ch. 26.
2 " " , 1806, " 19.

two years'. For the Hagerstown bank the discount-time was six months.[2]

A feature peculiar to the Scotch banks was introduced into Maryland by the farmers' bank at Annapolis; this was the system of cash accounts. An account of this sort might be opened on application of any farmer, mechanic, or manufacturer, for sums from $50 to $1000, whereby the party might draw or pay in any sum not less than fifty dollars at any one time, and on which settlements were to be made semi-annually. The party drawing cash to pay interest for what he might owe at six per cent. per annum, to be deducted on opening the account; and to be allowed interest on all sums returned from the time of payment. The party opening the account had to give good personal or landed security. The directors were not obliged to keep money on such cash accounts to a greater amount, at any one time, than one-fifth part of the

1 Md. Laws, 1806, Ch. 19.
2 " " , 1807, " 26.

capital[1]. An attempt was made in 1814 to introduce this feature into the practice of both the Bank of Baltimore and the Union Bank[2].

It has been impossible to ascertain the amount of the circulation of Maryland bank notes at this time. Mr. Bledget, in his "economicon", places the circulation of all the banks of the United States, for 1804, 1809, and 1814, at fourteen, eighteen, and nineteen millions respectively. This is probably only an estimate, however we may be safe in the inference that no great expansion had yet occurred. The United States bank and its branches were efficient in keeping state bank issues in check. Like the prohibition from issuing notes of a less denomination than five dollars acted as a restriction upon issues in that it kept an amount of small coin always in circulation.

The practice of paying interest on deposits was first introduced in banking by the Farmers' Bank of Maryland[3] Deposits for a period of at least six months drew interest

1 Md. Laws, 1804, ch. 61.
2 Federal Gazette, etc., Nov. 11, 1814.
a Brief Exposition, etc.

at the rate of four per cent. per annum; three per cent. was
paid on deposits drawable on demand. The directors of the
Farmers' Bank were empowered to issue notes on such
deposites, as they might judge prudent, up to the amount
of the deposites. The practice of paying interest on deposits
became general at a later time.

It was usual for the banks to try to maintain an amount of cash on hand equal to one-third of their circulation. This proportion was familiar from the creation of the Bank of the United States and of the Bank of England.[1] There was no legal requirement in Maryland fixing the amount to be held.

Dividends of profit were made half-yearly. If the directors wilfully made a dividend impairing the capital of a bank, all the directors present at the time, unless they exonerated themselves, were liable in their individual capacities to the corporation for the amount or proportion of it so divided.[2]

Up to 1795 the Bank of Maryland divided twelve per cent.

1 Abridgement, etc. p. 38.
2 Md. Laws, 1806, ch. 19.

annually. In 1804 it divided nine per cent. and the Bank of Baltimore ten per cent.[1] As banking capital increased, the profits of the individual banks slowly declined. In 1810 eight per cent. per annum was perhaps the average.[2] In March, 1804, Bank of Baltimore stock was selling at $500 per share (Par $300). In the latter half of the year it dropped to $400, on account of the establishment of competitive banks, the Union and the Farmers'. Union bank stock, at this time, before the bank was chartered, was selling at eight to ten dollars premium.[3]

Branch banking did not receive great extension in Maryland. It was introduced here in 1804. The Farmers' Bank of Maryland employed three-fifths of its capital in Annapolis; the remaining two-fifths constituted the capital of the Easton branch. When the Frederick branch was shorted, the capital was increased.

1. Federal Gazette, etc. Mar. 7, and Aug. 14, 1804.
2. " " " Mar. 26, 1810.
3. " " " Aug. 14, 1804

Chapter II.

Banking in Maryland, 1810–1864.

8) Economic and Political Condition of Maryland, 1810–1825.

The conditions of European politics affected Maryland's industrial activity. Her prosperity or decline depended largely upon her commerce in grain and grain products which Europe furnished. The market. In 1806 and 1807 the conduct of the belligerents toward American commerce became a subject of complaint in New York, Philadelphia, and Baltimore, whose merchants were especially affected. In 1807 the injuries were increased by the issue of the Berlin and Milan decrees. On December 23, 1807, a general embargo of United States ports was proclaimed, which was strictly enforced in Baltimore and decreased completely the industrial growth of the city and State. Business activity and prosperity immediately returned after the [illegible] years

raised the embargo in March, 1809. The exports increased from $2,700,000 in 1808 to $6,600,000 in 1809. This condition continued, checked temporarily in 1811 by the ninety days embargo, until the beginning of the war of 1812, when the blockade of American ports rendered commerce hazardous. Hence, the Baltimore "clipper" became a famous blockade runner, and it continued to do a large carrying trade. The exports from Maryland in 1813 reached $3,200,000.

In 1814 the enemy concentrated their attention upon the Middle and Southern states, and in August 12th Baltimore was threatened. Business of all sorts was nearly at a standstill. After the war commerce assumed its former proportions and Maryland industry began a period of prosperity which extended over five years, only interrupted at the general crisis of 1837 and 1857.

There were bad grain crops in England in 1817, 1817, and 1814. This circumstance, together with the removal of the Spanish court to Madrid, supplies for Maryland vessels. The market which has been curtailed by the restoration

peace on the continent. The consumption of tobacco also greatly increased at this time. Maryland profited by this both in the better price for her tobacco and also in supplying with wheat products the states south of her which went over more largely to tobacco culture. Baltimore was at this time, 1820-25, the largest flour market in the world. Her population was increasing rapidly; in 1810 her inhabitants numbered 35,500; in 1820, 62,700; in 1830, 80,600.[1] The counties of the state were becoming well peopled and their industries were being developed.

After the end of the war of 1812 the domestic manufactures of Maryland become more important. Under the influence of a protective policy they made rapid strides, and after 1825 they assume a place of equal industrial importance to Baltimore as her commerce. From this time on to the civil war her manufactures become her mainstay; her commerce remained stationary. In 1836 the South American trade became of greater importance; it continued to grow until 1858, when its maximum was reached

1 Scharf, Hist. Mar. [illegible] Appendix.

Maryland was always one of the most jealous states in the development of her resources, and jealousy of her sister states spurred her to the greatest exertions. After the war of 1812 internal improvement became a most prominent question both for the central government and for the various states. Maryland was a hearty advocate of this policy and entered into the work of making roads, building bridges and canals, on a broad and systematic scale. The more remote and outlying sections were finally brought within easy communication of their port, Baltimore.

4) A Period of Expansion, 1810–1812.

The development of state banking in Maryland proceeded slowly and naturally from the establishment of the Bank of Maryland in 1790 with $300,000 capital, up to the end of 1809, when the total banking capital in the state was $7,650,000, excluding $100,000 in the branch of the United States bank at Baltimore. $5,600,000 of this total [illegible]

been paid in. Extension has been made only in response to an actual demand for increased banking facilities, and in reality it has scarcely kept pace with the rapidly developing commercial, manufacturing, and agricultural interests of the state.

The unsettled condition of Maryland industry from 1807 to 1816, due to interruptions by the belligerents of Europe, has been described in the preceding section. This state of affairs is reflected in the banking history; no increase of banking capital occurred during these years. In 1810, coincident with a revival of trade, a period of rapid expansion began which extended over a period of eight years. It was in part evoked by industrial causes, but was also largely due to the prospective failure of the charter of the first Bank of the United States. The closure of this bank whose charter expired in 1811, was anticipated in 1810, and throughout the country there was a general and rapid movement of expansion on the part of the state banks to

occupy the banking field which was about to be vacated. The mania reached extreme proportions in some States; in Maryland, however, the cause of the organization of the new banks were largely industrial, and the purely speculative element was decidedly subordinate.

During these eight years banks were located in the industrial centers of the most advanced counties of the state; fourteen of the nineteen chartered during this period were in the counties. The expansion was an extensive, rather than an intensive, one. There was no increase in the amount of the nominal capital of the 16 banks; some enlargement may have been effected by calling in additional payments on the shares when the entire capital had not been paid up. This margin was, however, small, since the entire capital of the banks, with two or three exceptions, had been paid up.

The increase of banking institutions began in 1810 when the Assembly granted five new charters for banks, of which four were to be located in Baltimore. The fifth

at Elkton, in Cecil County.

The Baltimore banks were the Marine[1], the Commercial and Farmers'[2], the Farmers' and Merchants'[3], and the Franklin[4], and they embodied a nominal capital of $2,700,000. All of these banks organized under articles of association before applying for charters. The Commercial and Farmers' bank had been under discussion for some time and its organization had been decided upon in order to bring banking advantages nearer to the merchants in the upper part of the town. Subscriptions to its stock were well advanced, when notice of the projected establishment of the other banks was sprung upon the public by the publishment of their articles of association. Quite a sensation was created by the suddenness and the extent of the new enterprises, and efforts were made to consolidate the four into one or, at most, two.[5] These were, however, unavailing, and the four banks received charters from the Assembly and began business. The state became a subscriber to the stock of each of them.

1 Md Laws, 1810, ch. [illegible].
2 " " , 1810, " 68.
3 " " , 1810, " 77.
4 " " , 1810, " 67.
5 Federal Gazette and Baltimore Daily Advertiser, March 14, 14, and 23, 1810.

The discussion looked by the organization of these apparently uncalled for banks was not, however, without fruit. To prevent a repetition of the same occurrence the General Assembly immediately passed an act "to prevent the increase of banking companies", by which persons were prohibited to associate for the purpose of forming a banking company without first applying to the legislature for a charter. Each person acting as commissioner for such parties was made liable to forfeit two thousand dollars, and each subscriber one hundred dollars.[1] The effect of this was to enable the Assembly to control completely the increase of banking companies, and thus to enable them to check at the start the mania which was growing apace in other states. The prohibition to form private companies also prevented the disposal of the capital of the bank according to the wishes of the originators alone.

Great alarm was occasioned in the state in 1812 when it was found that a company had dared to organize

1 Md. Laws, 1810, ch. 108.

under articles of association. The City Bank of Baltimore was formed as a private partnership in 1811 and over $100,000 of its stock had been subscribed before it asked for a charter. In 1812 one was granted which fixed the capital at $1,500,000, of twenty-five dollar shares, of which four thousand shares were reserved for the State and 27,600 shares were distributed among the counties for subscription.[1] The remainder was taken in Baltimore. There is no evidence that the penalty for violation of the law was imposed upon them.

The other banks were chartered in Baltimore in April 1805. In 1813, the monopoly of banking in Baltimore was conferred on the banks then existing.[2] The circumstances under which this occurred will be explained in the next section.

The banks which were organized in the Counties were largely to assist the agricultural class, the manufacturing was becoming an important interest and, especially in the Western Counties, mining and lumbering

1 Md. Laws, 1812, ch. 180.
2. " , 1813. " 122.

operations had already assumed large dimensions. The Elkton branch was started with the primary object of aiding the grain trade of that town. And these special circumstances in each case were of influence. Between 1810 and 1817 banks were established in Cecil county. Following is a list of these banks:

Title	Location	Established	Capital.
Elkton	Elkton	1810	$300,000.
Farmers' Bank of Somerset and Worcester	Snowhill	1811	200,000
Branch at-	Salisbury	1814	.....
Cumberland	Allegany	1811	200,000
Bank of Somerset-	Princess Anne	1813	200,000
Conococheague	Williamsport-	1813	250,000
Bank of Caroline	Denton	1813	200,000
Susquehanna Bank and Bridge Co.	Port-Deposit-	1814	250,000.
Havre-de-Grace	Havre-de-Grace	1814	300,000
Westminster	Westminster	1816	300,000
Branch at-Fredericktown		1821	
Planters' Bank of Prince George's County	Upper Marlborough	1817	200,000

1 Johnston, History of Cecil County, P. 405.

Title	Location	Estabd	Capital
Centreville*	Centreville	1817	$ 200,000
Farmers' Bank of*	Annapolis	1817	100,000
Frederick County	Frederick	1817	500,000
North and South Branch Bank of Potomac*	Old Town	1818	250,000.
		Total	$ 3,450,000.

*Not open for business.

Summarizing our results, we see that from seven banks in 1809, with a nominal capital of $ 1,050,000, of which $ 500,000 had been paid in, the number had risen to twenty-two, whose nominal capital was $ 14,150,000, of which $ 7,526,000 was paid in. About $ 500,000 has been withdrawn by the closure of the branch of the United States Bank at Baltimore.

10) An Industrial Experiment by the Banks; Remarks and Imputation.

The period of duration of all the charters granted by the state, except that of the Bank of Maryland, was

Specified; 1815 was the time of expiration of all the charters given before that date when the question of recharter arose, Maryland was in the heat of the internal-improvement discussion. The popular favor of this policy was strong, and road, bridge, and canal companies almost without exception received charters from the assembly. The war was burdening the state and city of Baltimore with debt, so that they were unable to assist the new schemes financially; much private property of citizens had been destroyed and their resources had been otherwise drained by the calls of the state and city for loans. It was strongly urged to sell the bank stock and invest the proceeds in the various road companies, but the bank stock had been so profitable to the state treasury that the proposition was rejected.

Another circumstance opened up a course of action. A large element of the people was hostile to the banks either owing to fear of their power, or to personal reasons, or to dread of conditions in Maryland similar to those of other states,

concerning the horrors of which the periodicals of the day such as Niles' expatiate with the utmost vigor. The people generally agreed that the banks should pay to the State some return for the considerable privileges bestowed upon them. Under these circumstances it was decided to harness upon the banks the construction of some of the new roads, in return for the continuation of their expiring charters. This was by no means the first attempt to tax the banks. Annually, excepting one year, from 1804 on, a bill had been introduced for this purpose, but had met opposition in one or other chamber of the Assembly.

Early in 1813 there was passed an act[1] to incorporate a Company to make a turn-pike road leading to Cumberland, and for the extension of the charters of the several Banks in this State, and for other purposes." By this act the charters of all the banks in the state were extended to November 1, 1835, upon the conditions; first, that the banks of Baltimore City and of Washington County [illegible]

1 Md. Laws, 1812, Ch. 79.

scribed for as much stock as would raise a fund necessary and sufficient to complete the road to Cumberland, secondly, that all the banks of the state pay annually during the continuation of their charters under this act $2,000 into the treasury of the Western Shore, to be used as a fund for the support of county schools, and to be equally divided among them. Subscription to the road stock and contribution to the school fund were to be made in proportion to capital actually paid in or that might be paid in from year to year. The state pledged itself to impose no other tax during the continuation of the act. Managers for the road company were to be chosen by the banks from their stockholders at the rate of one manager for every twenty-five thousand dollars of stock subscribed, tho' each bank subscribing was allowed to appoint one manager.

The charters of banks not complying with the terms of this act were not extended. Unless the banks expressed their agreement to it before October 1, 1813, it was to

cease to be effective.

The banks did not agree to the proposition, but certain adjustments were made and embodied in a supplement to the preceding act which passed the Assembly at the December session of 1813[1] and received the approbation of the banks.

The leading points of difference between the two acts were:

1. The number of banks subscribing to the road was increased. It now included the banks of Baltimore, the Hagerstown, the Conococheague, and the Cumberland bank of Allegany.

2. The president and directors, for the time being, of these banks were specifically incorporated "The President, Managers, and Company of the Cumberland Turn-pike Road".

3 The charters were continued to January 1, 1835.

4. The annual tax of twenty-thousand dollars for the school fund, apportioned among all the banks of the state, was changed to a tax of twenty-cents on the hundred dollars of capital paid in, or paid in thereafter

1 Md. Laws, 1813, Ch. 122.

This provision was to come into operation January 1, 1815. The banks could exempt themselves from this by paying to the treasurer of the Western Shore before January 1, 1816, five hundred thousand dollars.

5) The fund was pledged for the establishment of a free school system throughout the state and was to be equally divided among the counties. This fund was to be kept separate from the general funds of the state and was to be invested, together with the dividends from it, in the shares reserved for the state in the Commercial and Farmers' and Mechanics' banks of Baltimore, and an annual report thereof to the General Assembly was required. The state became the property of the banks.

Banks accepting these provisions were continued until 1835 and the session of the General Assembly next thereafter; those rejecting them forfeited their charters. On the other hand the state pledged its faith to not increase or impose upon them no other tax during the continuation

of this act, and to the banks of Baltimore it solemnly promised to grant a charter of incorporation to no other banking institution to be established in the city or precincts of Baltimore before January 1, 1835; and the end of the session of the General Assembly next thereafter.

The banks did not regard the compulsion to subscribe for road stock as a very serious burden. It was expected that the tolls would be of considerable amount and that after a few years the stock would be a valuable resource. All the banks of the state agreed to the act within the specified time limit or shortly thereafter and were absolved from the penalty of forfeiture of charter.[1]

This same idea was frequently acted upon thereafter. In 1721 the banks expressed their willingness to undertake the construction of the Boonsborough and Hagerstown turnpike road. The president and directors for the time being of the banks of Baltimore

[1] Md. Laws, 1816, ch. 99.
" " 1815, " 167.
" " 1818, " 147.
" " 1821, " 131.

(except of the City Bank of Baltimore) and of the Hagerstown bank were accordingly incorporated the Boonsborough turnpike road company.[1] In return the charters of the banks which complied were extended to 1845. The tax of twenty cents on the hundred dollars of capital paid in was continued, and the pledge of the state to impose no further taxation during the continuation of the act was renewed, as well as the one to charter no mechanics in Baltimore or its precincts during the continuation of the act. Release from the school fund tax could be obtained by payment to the Treasurer of the Western Shore of $100,000 before January 1, 1823. In other respects the act was like the one incorporating the Cumberland turnpike road company.

Likewise in 1827 the charters of the Farmers' bank and its branches, the Farmers' and Mechanics' bank of Frederick County and its branch, and the Frederick County bank were extended to January 1, 1845, on

1 Md. Laws, 1821, ch. 131.

condition that they subscribe $16,000 each to the Frederick and Harper's Ferry road, or be one of several other roads mentioned.[1] The Susquehanna Bank and Bridge Company was incorporated to build a bridge over the Susquehanna with the privilege of doing a banking business with one-half its funds.[2] The Washington County bank was given a charter in 1831 on condition that it subscribe $1,000 to the Williamsport-and Hagerstown road.[3] In other cases the banks subscribed of their own choice. The Baltimore and Hagerstown,[4] the Monocacy and Frederick,[5] the Rockville and Washington[6] road companies and others received aid in this manner. The Commercial bank had the privilege of investing three hundred thousand dollars in steamers which should trade with Baltimore.[7] Investment in the various improvement schemes was very common, but the incorporation of banks as road construction companies is rather a novel feature. The effect of investments of this sort upon the banks

1 Md. Laws, 1824, ch. 42.
" " , 1827, " 42.
2 " " , 1814, " 66.
3 " " , 1829, " 198.
4 " " , 1814, ch. 69
5 " " , 1824, " 35.
6 " " , 1827, " 42.
" " , 1828, " 119.
" " , 1829, " 198.
7 " " , 1838, ch. 284.

will be discussed in a later section[1].

The idea of a tax on bank stock to raise a school fund was not new in 1812. In 1810 a bill to tax canals, roads, and banking corporations for this purpose passed the House of Delegates, but was defeated in the Senate.[2] The tax on bank stock laid by the law of 1813, ch. 122, continued in force until 1863, and yielded a fund ranging in amount from thirty to forty thousand dollars per annum. No other tax was imposed up to 1835, at which time the act expired.

III Suspension of 1814.

The suspension of 1814 was a general one, but the causes leading up to it were of especial force in Maryland. The demand for specie was increased by the Commercial restrictions caused by the blockade of United States ports. Maryland exports, from $6,733,000 in 1811, dropped to $3,787,000 in 1813, and $248,434 in 1814. The sudden drop in Maryland's exports of produce

1 Infra, p. 113 et seq.
2 Journal of House of Delegates, 1810, p. 37.

in 1814 necessitated. The modes of payment for her imports.[1] The Eastern States, too, had imported largely and specie for repayment was required. In the Middle States the enlargement of the bank circulation had given the Eastern States an advantage; paper money replaced the specie circulation. Excessive issues were called forth by the loans to the national and state governments which were necessitated by the exigencies of the war. The Eastern States were unprepared for the war and in great measure they withheld subscriptions to the loans, so that the burden came thrown upon the Middle States, and especially upon the cities, Baltimore, Philadelphia, and New York. Of the United States loans of 1812, 1813 and 1814, more than $2,500,000 was subscribed in Baltimore.[2] In addition to this the banks loaned the state over half a million dollars in 1813 and 1814.[3]

The banks were forbidden by their charters to make loans of large amounts (varying from $15,000 to

1. Cf. an address by the directors of the Chartered Banks of Philadelphia, Aug. 30, 1813.
2. Niles, May, 1812, and Apr. 3, 1813, and 1814.
3. Reports of Treas. to Legislature of Md.

$52,000 according to the capital of the banks) without the consent of the General Assembly (by the act of 1812, ch. 1, June session) the several banks of the State were authorized to loan the United States any sum of money not exceeding in amount one-third of the capital paid in in each case and previous loans made to the United States without consent of the legislature were declared legal and valid. Likewise they were allowed to loan the State of Maryland up to one-third of the capital paid in in each case, by the law of 1813, ch. 22 (May session), and up to the full amount of the capital paid in, by the law of 1814, ch. 70. In addition to this the loans of private individuals to the State and to Baltimore fell to a considerable extent upon the banks by the withdrawal of deposits.

The transmission abroad in 1811 of over seven million dollars which had been invested in the Bank of the United States, had perhaps some influence also. The expansion of the State bank currency to fill up the place made vacant by the expiring bank

was of much greater importance. The rapid multiplication of banks and the loss of the centralizing influence of the United States bank almost destroyed entirely the degree of consolidation and unity which had been the effect of the creation of the United States bank. The banks of the leading commercial cities now exercised this function, but more weakly, since the number of centres was large and the relations to the other banks were not so stringent. Each bank now dared to issue more than formerly; the facility of getting discounts was increased, and the demand for them became greater. There was an abundance of paper money, but little gold and silver; prices were high. No resistance could be offered to the heavy demand for specie from the eastern states and Canada, and the South and South-west - which had been remitting in specie to the Middle States "closed the profitless traffic". The alternatives were a restriction of discounts and circulation or suspension of specie

payments. The following tabulated returns illustrate these facts for Maryland as far as we have been able to obtain specific figures.

Maryland	Number of Banks	Capital	Circulation	Specie
Jan. 1, 1811	6	$ 4,795,202	$ 2,730,000	$ 750,000
Jan. 1, 1815	17	7,832,002	3,970,000	740,000
Jan. 1, 1816	20	8,406,782	5,615,000	760,000

Political conditions determined the turn of affairs at this time. The threatened attack on Baltimore in August, 1814, produced such alarm that the banks suspended and had their specie conveyed to places of safety. Philadelphia and New York banks immediately followed. The condition of the Maryland banks was by no means precarious; suspension was largely a precautionary measure.

Baltimore bank notes remained at par or very nearly so in Maryland; the notes of the country banks depreciated somewhat more. Immediately after the restoration of peace in 1815, confidence in

1 Gallatin, Considerations on the Currency, etc. p. 101.

The bank notes began to rise; in February and March, 1815, Maryland notes generally, excepting those of three or four country banks, were at par within the state and the discount at Philadelphia and New York were only two or three per cent. Specie still commanded a premium of 12-15 per cent, however. Considerable pressure was brought to bear on the banks at this time to urge them to resume specie payments, but exchange was still high and besides some of the country banks had extended their circulation to dangerous limits. Altogether they were unwilling to resume.

Congress discussed several plans to enforce a return to specie payments. It was proposed to receive for duties and other debts due to the government only the notes of such banks as paid their liabilities in specie. Another plan was offered by the Secretary of the Treasury in his report in December, 1815, advocating the establishment of a United States bank as the best practicable way

of compelling specie payments and procuring a sound circulating medium. Both of these plans were adopted by Congress. After February 26, 1817, the public revenue was directed to be received in "lawful currency", i.e., specie, Treasury notes, United States bank notes, and notes of specie-paying banks. The Secretary of the Treasury was also directed to take such measures as were necessary to cause "as soon as might be" the payment of all debts due to the United States in lawful money. Accordingly, after October 1, 1816, no lawful money was received by the government for debts less than five dollars.

The Secretary of the Treasury endeavored to secure the agreement of all the banks to resume February 20, 1817; Maryland and Pennsylvania banks objected and insisted upon July 1, 1817, instead, as the earliest date at which they would be prepared to resume. However, on February 1, 1817, at a meeting of representatives of the banks of New York, Philadelphia, Baltimore,

and Richmond, held in Philadelphia, it was decided to accede to the request of the Secretary of the Treasury and resume on February 20, under certain provisions. The Secretary of the Treasury accepted the conditions and accordingly agreed not to withdraw the public deposits from the state banks before July 1, 1817, or before the discounts of the United States bank reached two million dollars at both New York and Philadelphia and one million five hundred thousand dollars at Baltimore.[1] Also the Bank of the United States promised to aid the state banks with its resources to any reasonable extent. This compact and its support by the Bank of the United States enabled the resumption of specie payments to be made on February 20, 1817.

Preparation for resumption and anticipation of the power of the United States bank compelled the state banks to strengthen and to restrict issues. This they did by a very severe curtailment of discounts. In January, 1816, the notes in circulation of Mary-

1 Niles' Register, Aug. 24, 1816.
[illegible] Jefferson.

circulation amounted to $5,015,000. Within the year they were reduced by two million dollars, or more than one-third. The deposits suffered slight diminution, so that the restriction of discounts must have been at the same rate. The result of this would inevitably have been a widespread commercial disaster, but the Bank of the United States met the demand. Within two months its discounts ran up to twenty million dollars, and by October 31, 1819, they had reached thirty-three millions. The passage to specie payments, therefore, caused little inconvenience to Baltimore banks; some of the more reckless country banks which had extended their circulation too far, were in a precarious condition and were practically insolvent. So Baltimore received as much specie as was deposited or was withdrawn.

The administration of the Baltimore banks during the suspension was careful, but the majority of the country banks, becoming irresponsible, sacrificed safety to profit. The

1 Niles, mar. 15, 1817.

position of the country banks, this was peculiar in that they had just been established; five of the nine banks existing had been chartered in 1813 and 1814. The deposits in the country districts being relatively smaller than in the city, they were forced to depend more upon their circulation for profits.

The following table will show the circulation of Maryland banks before, during, and after the suspension.

	Banks	capital	Circulation
Jan. 1, 1811	6	$ 4,795,200	$ 2,732,000
" " 1815	17	7,832,000	3,970,000
" " 1816	20	8,406,700	5,615,000
" " 1817	22	8,708,800	2,727,000
" " 1818	22	8,708,800	1,742,000

The plethoric state of the currency was reflected throughout 1815 and 1816 by the high prices; the abundance of money was a matter of comment in the periodicals. All specie disappeared from Maryland at one [illegible]

and the very serviceable regulation (Mr. Laws, 1812, ch. 134) which prohibited the issue of notes of denominations under five dollars, was of necessity repealed in 1814.[1] Notes were the sole currency, even for small change,[2] until November, 1817.[3]

It is impossible to find out the rates of dividends declared by the banks during the suspension, but the quotations of stock are a good indication of its profitableness. The following table gives the quotations for Baltimore bank stock for September 2, 1815.[4]

Bank	Paid in Per share	Selling Price	advance Per cent.
Maryland	$300.	$360.	20
Baltimore	300	350	16.66
Union	50	63	26
Mechanics'	15	22.50	50
Franklin	17.50	23.50	34.39
Commercial and Farmers'	25	34	36
Marine	25	30	20
City	15	20	33.33
Farmers' and Merchants	45	53	17.33 average 28.19.

1 Mr. Laws, 1814, ch. 27. 2 The lowest denomination issued in Maryland was six and one-fourth cents. Niles', apr. 11, 1818.
3 The law of 1814, ch. 27 was limited to Nov. 20, 1815, it was continued in force by law of 1815, ch. 220, to Nov. 20, 1816, and to Nov. 20, 1817, by law of 1816, ch. 267.
4 Niles' Sept. 2, 1815.

The weakest of the country banks whose notes were greatly depreciated continued to pay eight per cent.

At the time of suspension specie commanded a premium of 10-12 per cent. in Baltimore; in August, 1815, the premium had risen to 12-17 per cent; by November it was 19-22 per cent. advance; in August, 1816, it was 14-15 per cent. premium. After this the premium declined rapidly.

Maryland bank notes fell to 5-10 per cent. below par immediately after the suspension. As soon as peace had been declared in 1815, they recovered and rose to 2-5 per cent. discount and soon stood at par in Maryland. By August, 1815, they were at par at home, and at 2½ per cent. discount in Philadelphia and Richmond. In November they were at 3 per cent. discount in Philadelphia and 19-20 per cent. discount in Boston.[1]

Nearly all Maryland notes circulated at par or small discount in Maryland after the first months of 1815. The mass of paper from other states rendered the situation

[1] Miles [illegible]

investment was surprising. The notes of each foreign bank had their rates of exchange, varying from time to time and with the distance of the place of issue. The ignorance of the condition of many distant banks and of the value of their notes, gave rise to another expense upon the public, the note-broker. Their service was the purchase and exchange of the uncertain and useless notes which were in circulation, but the cost of this service was an exorbitant one. The character of the men who entered upon this pursuit was usually such that the evil possibilities of this office were carefully enlarged. Endeavor was made to crush them out of existence by expensive licenses. In 1814 Pennsylvania passed a law fixing the license at $500 per annum, and requiring bond to the amount of $20,000 and an oath to act without fraud and collusion. However, their service was a real one and without them troubles increased, so that a milder law was soon substituted.

1 Pa. Laws, 1814, ch. 210.

12) Crisis of 1817.

The Bank of the United States immediately after its charter began to discount freely in order to relieve the pressure upon the state banks. Resumption occurred February 20, 1817; within five months the discounts of the bank had reached twenty million dollars, and by October 31, 1817, they had been extended to thirty-three millions. The Baltimore branch had been especially free in giving discounts; at this office alone they amounted to more than eight million dollars. Unchartered companies did much to increase the inflation. The Independent Manufacturing Company of Baltimore was especially prolific in respect to issues. No estimate can be made of the exact amount of the influence upon the inflation of unchartered banks. The usual wildly speculative tendencies which accompany an inflation of the currency, were present.

The condition of the Bank of the United States became a matter of great concern, and it was feared that the reckless administration of the branch at Baltimore

encouraging credit for the period. Its notes in circulation amounted to eight millions of dollars; its specie was low, never more than one-seventh of its cash liabilities. Under these circumstances a policy of restriction was decided upon which began July 10, 1817.

Before January, 1820, the discounts of the United States bank had been reduced ten million dollars. The State banks necessarily followed its lead. The Baltimore city banks did not extend their circulation to any considerable degree during the later months of 1817 and the first half of 1818. The restriction which had been begun before the resumption of specie payments was continued during the time of the inflation. The large discounts of the Baltimore branch bank rendered this the easier. During the year 1817, the circulation of the Baltimore banks was reduced from $2,727,000 to $1,742,000 or about forty per cent.

The report became widely spread early in 1818 that the Baltimore banks were in a critical condition

and that a suspension of specie payments was imminent. The report probably originated in some knowledge of the losses which Baltimore banks were then undergoing, though the full extent of these losses was not yet apprehended. During the year 1817 the total cash liabilities had been diminished from $4,235,000 to $3,440,000. The banks regarded themselves as in a semi-[illegible] condition.[2] The wide extension of discounts at the Baltimore branch banks had likely created the impression that all Baltimore banks had overmuch paper. In fact, there seems to have been little danger of a suspension.

The condition of some of the country banks was very different. Most of them were solvent, but at least three had practically never redeemed their notes in specie since 1814. When the general resumption occurred in 1817, they paid specie for their notes for a short time and then reappeared until finally in 1820 they were closed up. Between 1817 and 1820 their notes were not current as money except at discounts ranging from 2 to 7½ per cent

1 Niles, pp. 113 and 125.
2 Niles', Dec. 27, 1817.

even the brokers commonly refused to purchase them. The above description applies to the following banks: Elkton, Somerset, Somerset-and Worcester, Cumberland, and Susquehanna Bank and Bridge Company.

The irregularities in the administration of the Baltimore branch bank were upon discovery immediately examined into, and the amount of its discounts was decidedly lessened. Baltimore State banks continued their restriction more gradually throughout 1813, 1814, 1820, and 1821. Following are the items of their cash liabilities.

	Circulation	Deposits	Total
Jan. 1, 1817	$2,727,230	$2,108,560	$4,835,970
" " 1818	1,742,780	1,697,290	3,440,070
" " 1819	1,662,320	1,248,470	2,910,790
" " 1820	1,229,540	1,226,690	2,456,230
" " 1821	1,020,080	1,382,850	2,402,930

The drain upon the banks for specie caused by the more active demand for it North impelled them to a

policy of restriction. The bankers were always very sensitive to any slight advantage to be gotten by an exchange at the bank of notes for specie. Throughout 1811 notes were returning to the banks for redemption and their specie was being drawn out for sale at an advance. To prevent a decrease of the specie reserves, the state legislature early in 1814 attempted by legislation to control the natural rates of exchange. It was made unlawful to buy gold or silver coin for a greater sum in notes than the nominal value of such notes. For violation double the sum of gold or silver bought or sold was to be forfeited. Importers of specie were excepted from the action of this provision. Banks were forbidden to dispose of gold or silver in coin for a price more than the standard value of it. Persons receiving from a bank gold or silver with the intention of selling it again for a premium were made liable to forfeit double the amount so received. For refusal to pay the forfeit when convicted the penalty was imprisonment

not exceeding one year.' These regulations so far as they referred to the sale of foreign gold and silver coin were repealed in 1823.[2] The law was, of course, unable to control such transactions, its natural effect was to add to the price compensation for the risk incurred.[3]

The continued contraction of Baltimore state banks and of the United States branch bank, the latter more extensive and rapid now, produced a very severe effect upon mercantile industry. Debts contracted during the inflation of 1817 and the early months of 1818 became payable after the currency had been reduced. The result was that property everywhere was sacrificed to pay for the speculation and extravagance of the previous years. Bankruptcies were common and for immense amounts. The Federal Gazette of October 15, 1819, has six columns of applicants for benefit of the insolvent-laws; Niles' for May 5, 1821, mentions 350 applicants. The low price of grain added to the misery of the agriculturists. By 1822 the financial condition of the state was much improved.

1 Md. Laws, 1818, ch. 191.
2 " " 1823, " 147.
3 Niles', July 24, 1819.

13) Condition of the Banks after the Crises of 1814 and 1818.

The troublous period of 1814–20 resulted in great loss to Maryland banks and effected a reduction of banking capital both by the enforced insolvency of some and by a diminution of the capital of others. The losses of nine country banks and of one city bank resulted in the former manner; only one Baltimore bank failed, but others were compelled to reduce their capital stock.

The weaker organization of the country banks, as compared with the city banks, has already been mentioned.[1] This fact together with the locking up of their resources in real estate, due to the low price of grain and consequent agricultural depression which compelled the banks to take securities in payment of money loaned, kept the majority of the country banks from a permanent resumption of specie payments in February, 1817. Most of them resumed temporarily, but were unable to stand the strain. They had issued proportionally more than the city banks; of the $5,610,000,

1 Vet pastor, p. 130

the total circulation of Maryland banks in 1816, at least one third belonged to the country banks, whereas their paid up capital was less than one fourth of the total capital. At the same time they were unable to convert their resources into a ready form. The result was that they were in a state of chronic suspension from 1814 to 1820. Throughout 1817 20 their notes were issued below par, ranging in discount from 1% to 9% per cent. For example, in November, 1819, the notes of the Bank of Chesapeake were at 1% per cent discount; those of the Eastern, Somerset, Somerset-on Worcester, Port-Deposit, and Cumberland banks varied in price from fifty to ninety per cent discount. At the last quotation even brokers refused to buy them.

In February, 1819, steps were taken to compel these banks to pay specie or forfeit their charters by the passage of an act which provided that persons obtaining judgment for debt against banks might demand interest at six per cent per annum on notes or other claims from the time

1 Md. Laws, 1818, cap. 177.

when payment was required. Upon refusal or neglect to pay in specie any county court might order to issue a scire facias, to show cause why its charter should not be declared forfeited. The court, after investigation, might declare the charter forfeited and might appoint three commissioners to settle up the affairs of the bank. The interests of other creditors of such banks were to take precedence of those of stockholders. Notes of the bank were receivable by the bank for debts at their nominal value. The commissioners were allowed a commission not exceeding five per cent. Banks which had paid specie for their notes from May to October preceding the passage of the act were exempted from its force until January, 1820. Early in 1820 the act was suspended until the beginning of the year 1821.[1]

The suspension of the act protracted for a year the existence of the weak banks. At the end of 1820 eight of the thirteen country banks signified to the legislature their intention of closing, and were released from the

[1] Md. Laws, 1819, Ch. 154.

. several fund tax. This was granted, but the banks were forbidden to make any new discounts, and dividends could be made only after all the debts were paid.[1] In most cases the directors were allowed to close up the business, the three commissioners were appointed by the legislature for the Cumberland Bank of Allegany at its request.[2] A list of these banks with their date of establishment and paid up capital is here given.

Bank	Estab'd	Capital.
Elkton	1810	$110,000
Conococheague	1813	157,500
Cumberland	1811	107,662
Somerset and Worcester	1811	90,000
Somerset	1813	195,850
Caroline	1813	103,045
Havre-de-Grace	1814	132,075
Planters' Bank of Prince George's County	1817	86,290
	Total	$962,622.

It is very difficult at this time to obtain any exact

1 Md. Laws, 1829, ch. 170.
" " , 1820, chs. 102, 97, 116, 146, 179.
" " , 1814 " 163.
" " , 1819, " 142.
2 " ", 1823, " 144.

information of the particular circumstances attending each of these failures. They made no annual reports to the State Treasurer and at this time newspapers were not generally established in the counties. We cannot estimate the loss from the failure of these banks. The liability of the stockholders for the amount of their shares must likely availed little since a large part of the stock had been paid in state bonds which in case of failure were liquidated by the return of the certificates of stock. Thus all loss above, perhaps, the first installment of capital which was required to be paid in specie or the notes of specie paying banks, must have fallen upon the noteholders and depositors. The acceptance of state bonds by a bank in payment of debts due it was legalized for the Bank of Carolina (Mi. Laws, 1824, ch 163) and for the Planters' Bank of Prince George's County (Mi. Laws, 1831, ch. 176). The certificates of deposit of any bank were also made a tender to that bank for debts.[1]

1. Mi. Laws, 1824, ch. 199.

The resources seem to have been of little value in most cases, so that it is probable that with few exceptions the loss of stock was large. The Bank of Carolina met its debts to the highest bidder.[1] On the other hand the Mount-de-grace bank closed up creditably. It laid aside a fund to meet outstanding notes[2] and established an agency in Baltimore, the Franklin bank, for this purpose.[3] Generally noteholders suffered much in disposing of their notes at a sacrifice in haste to realize upon them immediately after failure was openly acknowledged.

The failure of the Easton bank was charged to a financial disaster among certain Philadelphia flour merchants who were deeply indebted to Easton dealers. The bank had been established especially to develop Easton's flour trade and to prevent it from being drawn to Baltimore. The collapse of the trade and of the bank came together. The bank had been very weak for several years and had ceased to declare dividends.[4] The practically insolvent bank, it failed utterly in 1822, yet it did not close entirely until 1830, when the legis-

1 Md. Laws, 1824, Ch. 163.
2 Md. Laws, 1825, Ch. 151.
3 Niles, Nov. 15, 1823.
4 Niles', Aug. 26, 1820.

lature provided for its closing on the same terms as the other banks and allowed it ten years to effect this.[1]

The Planters' Bank of Prince George's County after a time resumed business. In August, 1829, it again failed. The deficiency in assets in this case amounted to $16,000, which was charged to embezzlement by the cashier. Its notes of which there were then $15,000 in circulation, were at 30-40 per cent. discount. Its stock was quoted at twenty per cent. discount.[2]

During the period 1814-20 the Baltimore banks were also undergoing severe losses. The traceable causes of this are found to be maladministration, bad practice, and poor investments, operating singly or together. In the case of the Mechanics' and City banks the first of these causes was largely predominant. The effect of the practice of granting renewals of notes from time to time without proper consideration of the changes in the financial ability of the endorsers will be noticed in the next section.[3] The banks generally were considerably affected by losses through this practice. The Union bank perhaps [illegible]

1 Johnston, Hist. Cecil County, p. 40[illegible]
Md. Laws, 1834, ch. 288.
2 Niles', Aug. 29, 1829.
" , Mar. 20, 1830.
3 Poster p. 124

heavily y all in this manner; in fact its directors decided to alter its policy and reduce its personal notes in favor y those granted upon real security, and this plan was followed from 1826 to 1830.[1]

The third cause was general in its effects and it inflicted loss proportionally on all who were compelled by the law y 1813, ch. 122, and subsequent laws, to subscribe to the various improvement schemes. Here for we we have been able to estimate these subscriptions, they amounted to over one million five hundred thousand dollars. The cost of building the roads was always much greater than the computation. The Cumberland turnpike road, estimated to cost $350,000, cost about three times that amount. They were in no sense a good investment for the banks, as it was thought they would be when the project was entered upon. The best y these stocks paid no dividends at all for a number y years, and then perhaps they paid five or three per cent. per annum, seldom more; after a few years they ceased to pay at all.

1 Report to Stockholders, 1830.

This is the history of nearly all of these improvement companies in Maryland. Let us examine briefly a single example.

The Cumberland Turnpike Road was the most important and most promising of these undertakings. Between 1816 and 1822 the banks were required to pay their subscriptions to it, amounting to over one million dollars, or fifty-six thousand shares at twenty dollars the share. After several years without a dividend, in 1830 it was paying three per cent.; that is, its value capitalized at six per cent, the usual rate got by the banks, was $300,000. In 1841 the rate of dividend had declined; the capitalized value was $333,333. The market-price of shares which par was twenty dollars, was but one-quarter dollars; the total market value was $[1]26,000. In other words, within a period of twenty years the million dollars of shares was almost an entire loss. When we consider that the actual capital of the banks which subscribed was about eight million dollars, we unavoidably

1 Report of committee to stockholders, 1850

[illegible] what an enormous part of this capital was unproductive and ultimately a loss.

The only failure which occurred in Baltimore at this time was that of the City Bank which failed in 1819. Some account of its affairs will illustrate the extreme form of reckless banking. The cashier had entire control of the concern and ran it according to his own ideas. The causes of loss were mainly two, negligence and embezzlement. Many accounts, especially the largest ones, were not posted up; none, everyone was incorrectly kept; in some cases no account at all was on the books. Individual accounts amounting to hundreds of thousands of dollars were not settled for three or more years in some cases. Under such careless supervision embezzlement was easy. All the officers and clerks kept [illegible] receiving large amounts of money, the directors were receiving discounts without proper examination.[2] The overdrafts amounted to $426,000.

The immediate occasion of the failure was a call upon it by the branch of the United States Bank at Baltimore,

1 Report to Stockholders of City Bank of Balto., Nov. 21, 1819. Niles' Reg. Nov. 27, 1819.
2 Niles', June 5, 1819.

which it could not meet. a run upon it was the result. It extended to other banks, but all resisted it ably except the City bank which could only pay its notes under five dollars in denomination in specie.[1]

Statement of the Condition of the City Bank of Baltimore, October, 15, 1819.

Assets:			Liabilities:	
Bills discounted:			Capital	$832,030.
Well secured,	$571,065.21		Notes in circulation	70,020.
Doubtful	28,180.89		Certificates for notes deposited	117,824.03
Insolvent	43,792.50	$643,038.60	Small notes in circulation 7 to	10,000.
Real estate		37,000.	Due to banks	119,429.67
Cumberland road stock	39,569.41		To U.S. Branch 77,634.	
Balto. Exch. bldg	10,000	49,569.41	" other Balto. banks 2....	
Cash: specie	3061.62		Unclaimed dividends	5,276.80
Notes of Balto. bks	4475.		Depositors	17,409.53
" " insolvent banks	1,915.87	9,452.49	Sundry small items	350
Due from banks (deposit)		4,079.74		
Overdrawings:		426,083.78		
59 persons in the list; all but eleven for less than $1000; most of them " " " $100.				
Cashier	166,548.85			
His friend	185,382.			
Clerk	30,000.			
"	15,082.70			
"	6,324.99			
		$1,181,324.12.		$1,172,340.03

1 Niles', June 5, 1819.

In the $571,065.21 of discounts considered well secured, $200,000 or 300,000 were included which at the time of failure were overdrafts of directors or others. One account amounted to $73000. These were arranged for before the statement to the stockholders was made. The committee estimated the value of the assets at $760 310.08, and the debts due by the bank at $340,310.08 which left a remainder for capital of $420 000. The loss to the stockholders of $80, 000 was the greatest one. The notes were ultimately redeemed, tho' many were sacrificed, here as soon immediately after the failure at rates ranging from ten to twenty per cent. discount.[1] The bank very soon after the failure issued certificates bearing interest at six per cent. per annum in satisfaction of its note deposits.[2] The loss of interest was of considerable amount; over fifteen years were consumed in the settlement; in 1834 it was continued to 1840 to wind up.[3] A part of the stockholders desired to continue the bank, but it was finally decided to close. Effort was made to convict and punish the embezzling officers, but after a protracted contest it was

1 Niles', July 17, 1819.
2 " , June 26, 1819.
3 Mi. Laws, 1834, ch. 93.

decided by the Court that the action of the defendants was not punishable.[1]

None of the other banks of Baltimore were driven by their losses to suspension. However, very considerable reductions of capital occurred. The Mechanics' bank was compelled to reduce its capital by two fifths, from $1,000,000 to $600,000 or from $25 to $15 per share.[2] Before the reduction was made, the legislature allowed the bank to make half-yearly dividends of net profits without regarding this as an infringement upon the capital.[3] In 1827 it was again almost driven to the verge of insolvency by bad management, but a change of its officers brought it out of trouble.[4] On account of losses the Commercial and Farmers' bank reduced its stock from $1,000,000 to $666,666⅔, or one-third, the shares becoming $33⅓ instead of $50.[5] The Union bank reduced its capital one-fourth, from $3,000,000 to $2,250,000, the shares were now $75 instead of $100.[6] These losses were reported to the legislature in 1819 and permission was asked

1 Niles' Reg. 21 and Dec. 29, 1821.
2 Md. Laws, 1821, ch. 167.
3 Md. Laws, 1819, ch. 121.
4 Scharf's Chronicle of Baltimore, p. 274
5 Md. Laws, 1823, ch. 68.
6 " " 1821, " 146.
Register, 1820, p. 179.

the payment of dividends. This was granted and provision was made for refunding the capital. Money already earned was allowed to be divided, one-half to the stockholders and one-half to be retained to meet the contemplated loss. Of future earnings three-fourths might be paid in dividends to the stockholders and one-fourth retained to meet the loss until it was finally made up.[1] The tax for the school fund was adjusted to the reduced capital.[2]

The total loss of banking capital for the State by reduction was more than one-seventh. The State lost as stockholder about $64,000 and besides other stock became unproductive.[3] Besides these losses there were doubtless others of considerable extent which did not become public and which were made up from profits instead of a reduction of capital being made. Of these we can form no estimate.

Summarising the results, we see that after the critical period 1814-20, almost one-half (nine out of twenty-one) of the Maryland banks failed, representing

1 Md. Laws, 1819, Ch. 141.
2 " " , 1826, " 215.
3 Griffith, Annals Habitat, p. 251.
Journal of House of Delegates, 1838-39.

a capital of $1,831,162, or more than twenty two per cent. of the entire active capital of the state. In Maryland and Pennsylvania alone of the eastern states was the rate so high, tho' about the same rate prevailed for the country as a whole. For the United States the failures of state banks amounted to thirty million dollars out of a total of one hundred and forty million so employed. The total loss of capital in Maryland by failures and reduction was about three million dollars or one-third of the paid up banking capital.

The effect of this period of trial and discipline was exceedingly salutary. It removed the whole mass of weakly organised country banks which had been, largely thro' carelessness, only a disturbing element. The agricultural conditions which had called them into existence were now rapidly changing. Instead of the boom of the early years of the century which Maryland wheat-lands experienced, developed by Balto more commerce, this commerce was stationary,

perhaps declining a little, and Baltimore was beginning to take her place as a manufacturing city; this meant a clearer development for Maryland agriculture.

The ideas of banking too were greatly changed. The period of excessive profits was regarded as past, and the banks endeavored by economy and care to make up what they had lost by laxness and speculation. From 1823 to 1830 may be regarded as a period of recuperation during which the banks were endeavoring to recover from the effects of the preceding decade.

14) Practice of the Banks.

It was during the expansion of 1810–17 that the practice first became prevalent in Maryland of paying subscriptions to the stock of banks with their notes. It was charged that this occurred in the case of every bank except two which was established in Maryland between 1811 and 1812.[1] There were all country banks and their organiza-

1 Niles', Feb. 22, 1817.

tion was lower than that of the city banks. No other evidence than the statement of contemporaries can be brought forward to establish this point, but the action of these banks in the crises of 1814 and 1818 indicates their meanness. A part of the capital, usually about one-third, was required by the charters of these banks to be paid in gold or silver or the notes of specie-paying banks, before they could begin business. No manner of state inspection was provided to insure obedience to the law. The payment of the remainder of the stock was left entirely in the charge of the directors. The plan followed was briefly this: allowing that the first instalment of the capital was, as required, paid in specie or the notes of specie-paying banks, then the subscriber could obtain discounts to the amount of his paid up stock; with this he could pay his second instalment, and thus one-tenth his entire subscription was paid. If the bank fared well, he enjoyed dividends on the whole amount of his stock; if it failed, he could absolve his indebtedness to it by

paying in his certificates of stock. Thus he had all to gain and was irresponsible for losses.

The bad condition of the country banks from 1816 to 1820 may be ascribed to two chief causes, first, their weak organization, and second, their loans on real estate. Loans had been secured by farmers during the inflation of 1816-17; in 1817 the prices of agricultural products fell, and the farmers were unable to meet their obligations. The banks, entering upon a restrictive policy, were anxious to retire as much paper as possible; renewal of loans was refused and in many cases the borrower became bankrupt. To give an illustration of this, at one time early in 1818, the bank of Somerset had one hundred and fifty suits at law against individuals for debt. In this way much real estate fell into their hands for which at that time the price was low and ready sale could not be found. With their resources locked up in real estate, they were unable to meet their cash liabilities and were in almost continual suspension

from 1817 to 1820. Their paper was either at a great discount or ceased to circulate altogether.

In all the banks reforms were needed. Directors and officers were still able to use their positions to secure loans and discounts in extraordinary amounts. The administration of banks at this time was practically controlled by the cashier. The president was largely a nominal officer, and the one election to it was supposed to devote but a small portion of his time to its duties. A change in this respect began in 1821 when the Union Bank decided that it would be conducive to better management to have a president who would devote to the office all the time required and who should receive for his services proportionate recompense.[1]

Considerable danger and loss resulted from the laxity in permitting the renewal of notes. Some of the charters limited discounts upon real security to a certain percentage of the capital, usually one-eighth;

1 Report to Stockholders of Union Bank, 1821.

no limitation is mentioned. Aside from this, it was the custom among the city banks to discount chiefly on personal security. The discounts on personal security were to those on real in the ratio of 9–12 to 1. Two names were uniformly required on each paper, one of which must be of undoubted credit. The banks were too accommodating in permitting renewals; it was common for paper to run four or five years without change in the endorsement.[1] In a time when financial matters undergo such violent convulsions as between 1814 and 1820, the danger of such a practice can not be too much exaggerated. Endorsers who were sound in 1814 were very unsound in 1818. The losses of Baltimore banks on bad paper between 1816 and 1821 were enormous, and most all of the banks were seriously affected in this way.

The following example will illustrate this point as well as others of which we have just been speaking, the power of the cashier at this time and the [illegible]

1 Report to Stockholders of Union Bank, 182[illegible]
cf. Ut Supra, p. 115.

in which favorites were accommodated. In a report of the condition of the Union Bank on August 26, 1819, showing the resources was listed an item of $719,238.59, ascertained to have been made up as follows:[1]

$100,000.00 advances by the Cashier without the knowledge of the directors.

357,502.34 Doubtful paper.

151,293.52 Overdrafts ascertained.

110,442.67 Deficiency in funds unaccounted for.

$719,238.59.

Almost the entire amount proved an utter loss. The bank was saved for the time being by loans from its friends amounting to $566,000 and by passing its dividends.[2] It finally recovered its loss to the stockholders by a reduction of the capital amounting to $600,000, or one-fourth of the whole.[3]

The varying rates of depreciation of bank notes opened up to the banks the opportunity of buying up their notes at the lowest possible rates. For this purpose special

1 Report to Stockholders of Union Bank, 1820.
2 Ibid.
3 Md. Laws, 1821, ch. 166.
Report to Stockholders of Union Bank, 1830.

arrangements were entered into with the note brokers, and it was not unusual for a bank to have out-agents for this purpose. After 1811 it became illegal for any bank officer, or any person or corporation to buy, sell, or exchange any Marylan[d] bank notes for a less sum than their nominal value, or to employ for the purpose any broker or agent. The forfeit was in each case double the amount of gold, silver, or notes so exchanged.[1] The law was ineffective and simply added a risk charge to the price taken for such notes.[2] The practice was common down to the passage of the National Bank Act.

The action of some of the banks with reference to counterfeits upon their notes was also extremely reprehensible. Instead of announcing to the public the discovery of a counterfeit upon their notes, the more unprincipled banks endeavored to keep the knowledge of it as secret as possible, lest their notes of that denomination might cease to circulate

1 Md. Laws, 1812, ch. 191.
2 Niles, July 24, 1819.

and return to them for redemption. Counterfeiting was rendered easy and successful by the great number of banks, each of which had a different style of note, so that unless one were familiar with the particular characteristics of the notes of each bank, the imposition of false notes was easy. The poor quality of paper used and the simple engraving made them easy of imitation and increased the temptation to counterfeit them accordingly. Each newspaper usually contained a list of the counterfeits for the warning of the public. In 1727 the penalty for knowingly passing forged or counterfeit notes was fixed at five to ten years in the penitentiary for the first offence and ten to twenty years for the second.[1]

The Baltimore banks were driven to stop receiving on deposit depreciated bank notes. They were not allowed by law to receive them at less than their nominal value, while the risk of the solvency of the issuers and the trouble and expense of collecting and sending

[1] Md. Laws, 1727, ch. 62.

them home for redemption fell upon the banks. Demands for specie, too, were in many cases the cause of unpleasant relations. The notes, not only of Virginia, Pennsylvania, Rhode Island, and other distant points, but also of some Maryland country banks and those of the United States Bank, if payable at distant points, were rejected. This action tended naturally to increase the discount upon such notes and to retard their circulation; the only recourse was to place them in brokers' hands. The banks suffered materially by refusing them.

To secure a freer circulation of their notes, the country banks of Maryland contemplated the establishment of a joint bank just outside Baltimore. On January 27, 1716, they were successful in procuring a charter under the title of the Consolidated Bank.[1] The capital $500,000, in shares of $100 each, payable in Baltimore bank notes, was to be apportioned to the banks of Maryland located outside of Baltimore; the directors were to be appointed by the [illegible]

[1] MS. Laws, 1715, ch. 169.

of the banks subscribing were to be reduced in proportion as they subscribed for stock in the new bank. The charter was to be made null if the Baltimore banks agreed to receive the notes of outside banks on deposit and to reissue them. The project never materialized. Not until June, 1823, did the banks of Baltimore begin again the receipt of all Maryland bank notes on the same terms as their own, and at the same time Pennsylvania and Virginia notes were received on deposit.[1]

15) Miscellaneous legislation.

The charters of the country banks established between 1810 and 1818 have been said to have been of less strict nature than the earlier ones. Some of these points of difference will now be mentioned.

Usually 1/3 — 1/4 of the first instalment only of the capital was required to be paid in specie; the amount of the first instalment varied from 1/3 to 1/2 of the capital. The payment of subsequent instalments was kept entirely with the directors, and thus an

1 Niles', June 28, 1823.
" , Aug. 23, 1823.

twenty were opened for the use of stock notes.[1] In one case, that of the Centreville bank, to which this the charter required the whole capital to be paid in Specie.

The state became a subscriber to the stock of five of these country banks, viz. the Elkton and Hagerstown banks, but usually the provision was made that whenever the state desired to take stock, it might increase the capital of the banks and subscribe. Until subscription was made the state appointed no directors and usually required no annual reports, since it was only as stockholder that she exercised this supervision. Only five of these country banks were required to send reports of their condition to a state officer. However, by a resolution of the General Assembly, passed in 1813,[2] all the banks within the state were required to transmit an annual report in December to the Assembly.[3] The points to be specified in the report were the same as those described heretofore in the charter of the Bank of Baltimore.[4]

In some cases even the nominal limit of debts to twice the amount of capital paid in, was matter, and to [illegible]

1 cf. supra p. 42.
2 Resolution 18.
3 cf. " " 47, 1814.
4 cf. supra, p. 41.

at all was imposed.[1] They were allowed to discount on property security up to 1/5 – 1/2 of their actual capital. The Mechanics' bank of Baltimore allowed discounts on the security of stock up to three-fourths of the stock paid in. As a consequence of their discounting largely to farmers upon real security, the discount term was increased. Only two were limited to sixty day discounts; for one the limit was four months; for nine it was six months, for two there was no limit.

Directors were forbidden by most all of the charters to receive discounts on different terms than others. The usual limit of discounts to directors was $1000 in one week, or a total of $5000 altogether. The president and directors were eligible for reëlection without limit in the bank of Somerset and Worcester. In the five charters which were granted in 1817 and 1818 suspension of specie payments rendered the charter void. The insertion of this provision was a result of the continued suspension of Maryland country banks after the general resumption of February, 1816.

Six per cent. was fixed as the legal rate of interest [illegible]

1 Cf. Md. Laws, 1813, ch. 33.

discount was very much forbidden; however, by a general law[1] in 1826 all discounts previously calculated according to Rowlett's Tables were made valid, and for the future interest was to be calculated by the banks in accordance with these tables. The same exemption and privilege were extended to all corporations and citizens of the State by the law of 1832, Ch. 152.

The issue of small notes was expressly prohibited by the charters, but this became a matter of special legislation. In 1821 a general law[2] was passed on this subject, called forth by the violations of charter provisions and previous legislation, which made it unlawful for any bank within the State to issue or pay out notes or bills of a less denomination than five dollars, or of an intermediate denomination between five and ten dollars. The penalty for each offence was twenty dollars to be paid by the convicted offender. Persons passing such notes of banks or of other incorporated or unincorporated companies were liable to a fine of five dollars for each offence.

1 Md. Laws, 1826, Ch. 99.
2 " " 1821 " 186.

This law was the result of a genuine effort on the part of the banks and of the people to regenerate the currency and get rid of the small "rags". Early in 1820 the banks were freely supplying specie dollars in place of the small notes, but the silver was immediately displaced by notes from the District of Columbia.[1] Finally in September, 1820, the banks decided to receive for five days all notes under five dollars, and thereafter neither to reissue them nor issue new ones,[2] and the town people in a general meeting agreed to assist in improving the currency by not circulating such notes.[3]

Early in 1813 a law was passed recognizing as the money of circulation and account of the State of Maryland the coins struck at the mint of the United States; the ratings of foreign coins established by Congress from time to time were accepted.[4] This was the first statutory recognition of the system which had for years been in common use, tho' the old custom of reckoning in pounds and shillings had by no means entirely died out. In laws passed before the adoption

1 Niles', Jan. 6, 1820.
2 " Sept. 9, 1820.
3 " Sept. 30, 1820.
4 Md. Laws, 1812, ch. 135.

of the Constitution the english system was employed.

"An act to impose a tax on all banks or branches thereof in the State of Maryland not chartered by the Legislature" was passed in 1818.[1] It enacted that if any bank had established or should establish, without first procuring authority from the state, any branch or office in the state, it should not be lawful for it to issue notes except upon stamped paper procured from a state officer and of the denominations 5, 10, 20, 50, 100, 500 and 1000 dollars on which a tax of 10, 20, 30, and 50 cents, one dollar, ten dollars, and twenty dollars respectively was imposed. $15,000 annually might be paid in lieu of the above tax. The penalty for circulating notes of such banks unstamped was a sum not exceeding $100. $500 was the penalty for establishing such an office.

The direct object of this law was the taxation of the branch of the Bank of the United States located at Baltimore; the law was urged both on general grounds of hostility to the bank and on account of opposition to it by the state banks who feared its competition and restraining influence; besides the opinion was general

1 Md. Laws, 1817, ch. 156.

that an outside bank should not be permitted to enter the state on more favorable terms than the state banks. The law was declared unconstitutional by the Supreme Court of the United States in 1819 in the familiar case of McCulloch vs. Maryland, on the ground that it interfered with the execution of one of the implied powers of the government.

Several restrictive measures arose the outcome of the speculative character of banking from 1814 to 1820. The use of proxies in voting was manipulated to the advantage of ring or machine management, and fraudulent proxies were used. The correction of this abuse was aimed at in the law of 1819, ch. 134, which forbade the use of proxies to all except the infirm and those living more than ten miles away. No officer, clerk, or director could use as proxy, and in any case power of attorney was necessary. Judges of election permitting violation of these provisions were liable to $2000 fine and imprisonment for a year. Directors were not entitled to receive any accommodations on special terms, and no one could be elected a director of a bank who

partner was a director of the same bank.[1] By the law of 1819, ch. 156, this act was restricted to the Baltimore banks and the assent of the stockholders was necessary to give it force. This is received.

The frauds which were exposed in the management of the City, Union, and Mechanics' banks and the escape of the parties from punishment led to severe laws on this subject. The law of 1819, ch. 145, fixed the penalty for embezzlement by a bank officer at one to seven years in the penitentiary, for fraudulent abuse of trust the punishment was one to ten years in the penitentiary. In 1821 the penalty in each of these cases was made five to fifteen years in the penitentiary.

16) Crises of 1825 and 1828.

After 1820 there came a reaction from the period of speculation which had preceded. The weak banks passed out of existence; the survivors enjoyed a long period of prosperity without violent disturbance. Of

1 Cf. Md. Laws, 1818, ch. 1[illegible].

1830 they had recovered from the losses of 1816–21. The United States Bank exercised a controlling influence over them and rendered their operations more guarded and regular. The State banks followed more closely the restrictions and expansions of the national bank. In Maryland there was not a time in the decade 1820–30 in which failures had dangerously expanded. The following table gives the circulation and deposits of Baltimore banks for this period. It is impossible at present to obtain the figures for the country banks; however they represent but a small part of the banking capital at this time, since all had gone out of existence except four.

Circulation and Deposits of Baltimore Banks, 1820–30[1]

Time	Circulation	Deposits	Total
Jan. 1820	$1,229,540	$1,226,690	$2,456,230
" 1821	1,020,080	1,382,850	2,402,930
" 1822	1,214,030	1,533,440	2,747,470
" 1823	1,031,750	1,261,330	2,293,080
" 1824	1,113,750	1,441,160	2,554,910
" 1825	1,357,610	1,581,250	2,939,460
" 1826	1,519,190	1,528,220	3,047,410
" 1827	1,347,690	1,629,620	2,977,310
" 1828	1,272,190	1,724,160	2,996,350
" 1829	1,422,970	1,633,010	3,055,980
" 1830	1,294,760	1,349,770	2,644,530

1 Based on reports to legislature and reports to stockholders of Union Bank for 1820 and 1830.

The panic of 1825 was the result of a general spirit of speculation which reached its greatest magnitude in Europe; in America its special feature was speculation in cotton. An increased tariff also heightened the expectation of prosperity. Demand for credit stimulated the creation of banks again especially in New England, New York, Pennsylvania, and the West. The currency became considerably inflated. Maryland was comparatively affected but little, since the speculation in cotton in this district was not great. Her banking institutions did not receive a single addition. The circulation of the Baltimore banks was increased but $240,000 during 1824, the year of inflation. Within the next six months there was added about $150,000, but nothing extreme occurred.

When the reaction began about September, 1825, by the fall in the price of cotton and other products, general distress prevailed. Many failures occurred all over the Union, but Maryland suffered proportionately

less than any other state. The circulation was uniform and adequate to its work.[1] The contraction by the state banks was not sufficiently rapid to produce disaster; in fact, the circulation of Baltimore banks was greater in January, 1826, than for a number of years preceding, reaching $1,519,190. By January, 1827, the amount had been diminished by $170,000. The entire circulation of Maryland banks was in good credit; none of it was at a discount. This was largely the effect of the frequent settlements required by the United States bank. A considerable part of the circulation was coin, very few notes under five dollars in denomination were current, and these were chiefly Virginia bank notes.

The disturbance of 1828 was largely resultant from an extension of circulation by the Bank of the United States. As early as April, 1828, the money market had become very close, and much specie was being exported. The banks of Maryland had already been compelled to begin a reduction of their discounts.

1 Niles', Dec. 3, 1825
2 Niles', Nov. [illegible]

the same time they ceased to receive on deposit or for the payment of notes, the bills of all banks which were not received in Philadelphia and New York. The quantity of specie at the command of the country banks was so limited that already the redemption of their notes was in many cases a task.

The Baltimore banks relieved the stringency as far as lay in their power. In January, 1828, the circulation and deposits amounted to $2,446,350; by January, 1829, they had increased to $3,055,900. The periods of greatest depression were May, 1828, and September, 1828, to July, 1829. By the end of 1829 business had revived and money seemed plentiful; a large part of it was silver.[1]

Following is a statement of the condition of Maryland banks, January, 1830.

1 Miles', 1828 and 1829.

Statement of the Condition of Maryland Banks, January, 1821.

Resources:	Baltimore	Union	Mechanics	Marine	Franklin	Comm. & Farm.	Farmers & Merch.	Hagerstown
Discounts	1,573 737	1,458 71[illegible]	577 577	247 100	636 672	577 300	520 471	437 411
Specie	212 409	188 446*	72 740	58 750	58 506	45 663	31 848	40 138
Due from banks	140 746	----	85 531*	20 712*	167 726	91 940	65 327*	67 953
Real estate	42 973	239 985	50 620	29 000	45 189	----	26 575	23 346
Rents & other items	90 140	459 245	61 808	18 460	45 584	98 466	77 475	20 735
Suspense acct.	----	----	----	----	----	57 152	----	----

* Includes notes of specie-paying banks.

Liabilities:								
Capital	1,199 350	1,736 625	384 000	235 000	415 000	416 866	465 000	250 000
Circulation	226 316	22 771	212 478	68 269	217 144	244 937	110 232	216 275
Deposits	424 578	255 994	187 978	82 643	236 337	137 311	149 025	77 271
Due to banks	144 308	11 817	77 717	29 168	40 794	55 773	----	15 989
Surplus	84 868	----	----	----	24 080	50 001	----	2 841
Other liabilities	25 585	619 837	6 104	6 942	12 530	38 750	13 434	----

17) Expansion of 1829-36.

Several causes were operative in producing the expansion of banking in Maryland which occurred from 1829 to 1836. In the first place the counties which had been gradually progressing during the decade 1820-30, had been practically without banking facilities since the wholesale fall of the country banks in 1819-21. This field was now a ripe one for entrance. Secondly, no new banks had been established in Baltimore since 1812; the state had pledged its word to charter no new banks in Baltimore during the continuation of the act-passed in 1813 in which the monopoly of banking in that city was conferred upon the banks then existing there in return for their agreement to build a road from Baltimore to Cumberland. This pledge expired in 1835. During this period of twenty-three years Baltimore manufactures had developed steadily, and in 1835 works were in construction or contemplation destined to make Baltimore the great-[illegible] of Maryland.

In 1825 the Chesapeake and Ohio canal was chartered; in 1829 the Chesapeake and Delaware canal was entered upon. A charter was given to the Baltimore and Ohio railroad in 1826, and to the Susquehanna in 1829; the Philadelphia, Wilmington, and Baltimore line was opened for travel in 1837. Other lines were being discussed. The improvement of transportation was opening up new industrial possibilities and Baltimore was zealous to render effective her strong natural position. In 1830 the cry for more banking capital had already become a strong one.[1] The whole state was dependent for bank accommodations upon twelve banks, of which eight were in Baltimore. The total capital for the state was $5,455,000, exclusive of 1½–2 million dollars employed by the branch of the United States bank. The counties needed the introduction of facilities at the more advanced points, and the city needed an increased banking capital.

1 Report of Select Committee on Finances of the State [illegible], 1831.
" " Com. of Ways and Means " " " " 1833.

A third cause which was influential in the increase of banks at this time was the termination of the Second Bank of the United States. The end of this institution at the expiry of its charter in 1836 was anticipated as early as 1830. In 1832, President Jackson by his veto put at rest all hopes of recharter. As in 1811, so again in 1832, this was the signal for hosts of applications for new banking charters.

In Maryland the expansion took the form both of an increase in the number of institutions and also of an augmentation of the capital of several of the old banks. The former movement was much the greater. No banks were chartered in Maryland from 1818 to 1827. Between 1829 and 1836 seventeen new ones were granted charters and two old ones which had failed in 1821 were revived. Five of the seventeen, however, did not organise and open for business. The number of new banks was almost evenly divided between Baltimore and the counties; nine were chartered for Baltimore in the year 1835; two were distributed

over seven counties. None were created in Baltimore after 1835 for more than a decade owing to the continuation of the monopoly to the banks then existing until 1845 upon their agreement to make the Jonesboro road.[1]

The total authorized capital of the new banks was $17,900,000, tho' the banks which did not enter upon operations reduced this by $10,750,000. Of the $17,900,000, $13,900,000 belonged to the proposed Baltimore banks.

A list of these banks with their nominal capital follows:

Name	Location	Estab'd	Capital
Salisbury	Salisbury	1829	$50,000
Washington County	Williamsport	1831	250,000
Commercial of	Millington	1831	100,000
Cumberland[1]	Cumberland	1832	200,000
Planters' Bank of Prince George's Co.[1]	St. Mary's	1832	200,000
Patapsco	Ellicott's Mills	1833	300 – 150,000
Merchants'	Baltimore	1835	2,000,000
Western	"	1835	500,000
Commercial[2]	"	1835	3,000,000

1 Ut Supra, p. [illegible]

Name.	Location.	Estd.	Capital
Eastern[2]	Baltimore	1835-	500- 250,000.
Chesapeake	"	1835-	1,000- 500,000
Mineral	Cumberland	1835-	250,000
Citizens'	Baltimore	1835-	500,000
Farmers' and Planters'	"	1835-	2,000,000
Real Estate[2]	"	1835-	5,000,000
Farmers' and Millers'	Hagerstown	1835-	300,000
Hamilton	Anne Arundel	1835-	150,000
Real Estate[2]	Frederick	1835-	2,000,000
Union[2]	Cumberland	1836	500,000
		Total	$17,900,000.

1 Ruined.
2 Did not open for business.

After these banks had been organized, their paid up capital amounted to $4,272,400, or half as much as the whole capital of the banks already organized. $3,186,730 of this new capital belonged to the five new Baltimore banks.

The reason why five of the banks chartered did not organize was probably the hard conditions imposed in three of these cases and the experimental character of the other two. The capital of the Commercial bank was fixed at $3,000,000 to which the state might add, whenever it wished to subscribe to its stock, $100,000 more. $300,000 might be invested in ocean steamships trading with Baltimore. The main bank was to be in Baltimore and two offices of discount and deposit were to be opened on the Eastern Shore and three on the Western. The state required $600,000 in specie to be on hand at its beginning business, and besides the regular school tax of twenty cents on the hundred dollars, it was required to pay the state a bonus of $112,500.[1]

The Eastern bank of Baltimore had already been in operation as the Fell's Point Savings Institution. It was given full banking privileges on condition that when the change was effected, it should have on hand in specie only its nominal capital, $125,000, and should become sub-

1 Md. Laws, 1835, Ch. 289.

ject to the school tax, and besides pay the state a bonus of $4,775 and an additional bonus of $3.75 per $100 of capital over $250,000. Likewise for the Union Bank of Allegany the specie requirement on opening was large, and besides the regular school tax, a bonus of $3.75 per $100 of nominal capital was required. The hardness of these conditions most likely prevented the organization of these banks.

The two real estate banks located in Baltimore and Frederick respectively, were a manifestation in Maryland of the same movement which was gaining ground rapidly at this time in the West. The plans of the two banks were similar. The capital of the Real Estate Bank of Baltimore was $5,000,000, consisting of real estate in Baltimore, conveyed to the bank, to the amount of $4,000,000, and $1,000,000 in money. Only fee simple and unencumbered estates of lessees for ninety-nine years, renewable forever, were received. The bank was to borrow $4,000,000 by a sale of bonds bearing interest at six per cent or less [illegible]

conveying land to the corporation held stock to the amount of its value, and he was responsible for the depreciation of the land. The governor of the state had power to appoint five persons to inspect it after the lapse of three years. It was required to pay the state a bonus of $3.75 on each hundred dollars of its capital up to $4,000,000. $400,000 in specie had to be in its possession before it could begin business. The charter of the Real Estate Bank of Frederick County was similar to the one just described. Its capital was $2,000,000, of which $1,800,000 was to be in Frederick County real estate and $200,000 in money. Bonds for $1,500,000 were to be issued. Other features were the same as those mentioned above. The strict requirements, together with their experimental character, prevented their organization[1].

The restraint exercised by the legislature was sufficient to allow banks to be organized only where there was an economic demand for them. A number of applications for charters was refused, and the strictness of those

1 Md. Laws, 1835, ch. 378.

granted prevented their acceptance by speculators. Several of the companies granted charters were compelled to ask for an extension of the time allowed them for organization, which indicates the difficulty of complying with the conditions.

The new charters were more rigorous in the following respects: the quantity of specie required to be on hand on opening for business varied in different cases from the entire authorized capital to one-fourth of it, and before the bank could open for operations, the treasurer of the Western Shore must have made examination and seen that this amount of specie was in the hands of the bank. It was prohibited, for, to pay installments of stock with discounts obtained by pledge of such stock. Forfeiture of charter on failure to pay their liabilities in specie on demand was a provision of these charters, and interest at twelve per cent. per annum was demandable from the time when payment was demanded and refused. In the report of the Select Committee on the

Currency to the legislature in 1837, greater responsibility on the part of the directors was urged. It was suggested that this befriend a loan amount equal to one-half their stock. This, however, failed to receive sufficient support to make it a law.

The expansion of the capital of banks already in operation amounted to $2,500,000. The Franklin bank added $1,200,000[1]; the Salisbury $100,000[2]; the Hagerstown $400,000[3]; and the Hamilton, upon its removal to Baltimore in 1837, added to its capital $700,000[4]. The state, too, by selling its right to subscribe in several of the banks effected really an increase of active capital. The right to subscribe to the capital has been reserved by the state in every case in granting the charter, and inasmuch as but a small portion of this amount had ever been subscribed and paid for, it really operated as a limitation of capital. Between 1833 and 1836 the state sold the right to subscribe some or all of her reserved shares in three banks and retained

1 Md. Laws, 1835, ch. 277.
2 " " , 1836, " 159.
3 " " , 1836 " 295.
4 " " , 1836 " 178.

varying from two to ten dollars per share. Stock to the amount of $625,000 was thus freed for subscription and utilization, $75,000 in the Union bank, $500,000 in the Merchants', and $50,000 in the Hamilton, in the last case the bank itself was the purchaser.

Some mention of the great extension of private banking should be made here. The chief function performed by these private banks was that of issue, and after about 1825 this function was exercised by companies of all sorts which could find a market for such wares. With a view to restraining them they were made subject to the provision regarding small notes to which the chartered banks were subject. No one was allowed to issue or pass notes under five dollars in denomination under penalty of fifty dollars fine[1]. This was effective against the smaller sort of these concerns, but much private banking continued to exist down to the passage of the National Bank Act.

Reviewing, then, the increase of banking capital from 1829 to 1836, we find that at its beginning there were

1 Mo. Laws, 1831, Ch. 317.

thirteen banks whose nominal capital was $7,526,666, of which $7,461,372 was actively employed. These were increased by fourteen banks during 1829-36, of which the nominal capital was $7,150,000 and the paid in capital $4,878,000. The total increase of active capital from the three sources mentioned above was over eight million dollars, i.e. the capital was doubled. The Bank of Maryland by its failure in 1834 detracted $300,000! In 1836 there were, then, twenty-six banks whose nominal stock was $19,176,000 of which $15,465,000 was paid in.

18) An Attempt to establish a Bank of the State of Maryland.

Throughout the years 1830-33 there was an active discussion of a plan to establish a bank under the direct control of the state government. The need of a decided increase of banking banking and the location of banks in the country sections was facts to which

1) Postea, p. 169.

are agreed. These engaged in manufacturing and commercial operations especially complained of the inadequacy of the banking capital and the limited amount of the currency. The cause of the small amount of circulation was considered to be the influence of the United States bank in restraining the state banks.[2] The espousers of the new state bank were bitterly opposed to the United States bank.

The objects of the new institution were to be an increase of the circulating medium, the convenience and benefit of the people at large, the repletion of the treasury of the State, the keeping of the public deposits, the making of improvements, the support of public education, and the avoidance of taxation. The bank was to belong to the state exclusively, and the contemplated organization of it would have made it a department of the State government. The president and board of five directors were to be appointed by the General Assembly, on the recommendation of the Governor with the consent of the Council. The president

1 Report of Mr Teackle, Chairman of Select Com on a State's Bank, House of Del., Del. Sess., 1829.
Report of Com. of Ways and Means on a State Bank, 1833.
2 Ibid.

and directors had power to appoint the officers and other agents. Office was to be tenable during good behavior, subject to removal by the governor upon the recommendation of the General Assembly. Political opinion was to have no influence either in the appointment or dismissal of any officer.

It was proposed to form the capital of the bank from the invested money in the state treasury, which was composed of United States bank, loan, and other stocks. The bank stock amounted to about $520,000, and there was $335,105 invested in U.S. three per cents. The funds amounted to about $70,500, making in all about $935,600. The augmentation of this capital was provided for as follows: the president and directors of the bank, with the approval of governor, council, and legislature, were to be authorized to purchase, at a rate not exceeding the par value of the actual capital paid in, any one or more of the banks then existing in the state. To pay for it, the bank was to issue

twenty years five per cent bonds. The faith of the state was to be pledged for both principle and interest. Two per cent semi-annually of the amount of the bonds was to be set aside and invested by the bank for the redemption of the bonds. After the payment of the debt the bonds which had been purchased were to be merged into, and their funds were to form a part of the capital of the state's bank.

This scheme introduced the idea of consolidation and centralization by the absorption of some or all of the old banks. This principle was further extended by provision for a system of offices and agents embracing all the counties and important centers. These offices were to be for discount and deposit; their capital was to be appropriated from the central bank.

The advancement of the counties was one of the objects especially set; and in furtherance of this money was to be advanced on real estate security at the rate of interest not exceeding five per cent per ann——

The profits of the bank were to be at the disposal of the state treasurer, tho' if the semi-annual dividends exceeded five per cent, the excess was to be turned over to increase the capital of the bank. The state treasurer was to be allowed to anticipate an accruing dividend by drawing on the bank for its probable amount.

The attorney general and the treasurers of the state were ex officio directors of the bank. For discounts upon personal security four good names were to be required, otherwise a deposit of bonds or precious metals was to be required; accommodation notes were not to be discounted without a similar deposit. No president, director, officer, or agent of the bank was to be allowed to be a discounter or borrower, or endorser in any way.

There were two peculiar features in the proposed bill; the first was the power of issuing "bottoming notes", or notes bearing interest at the rate of one cent a day, redeemable both in principal and interest at three months after presentation; the denomination of the notes

was to be one hundred dollars.

The second experiment was the sale of certificates of stock of a par value of one hundred dollars each, bearing interest at three per cent. per annum, to persons having notes of the bank to the amount of one thousand dollars, eighty dollars of the bank's notes were to be exchangeable for certificates of stock. This stock was to be redeemable at pleasure by the state.

Provision was made for periodic inspection and reports to the Assembly. Specie in coin or bullion to be held before opening.

The leading points of this proposed legislation were strong. As an instrument to centralize and maintain the state banking system, it would have been an immense step in advance. On the political side there was danger. A great economy in banking would have been effected, while by the bank office and agency system, less advantageous than

would have received the assistance necessary for their development. In the investment of a part of the capital in United States and State approved stocks, it is partially an anticipation of the New York law of 1837 which required such an investment as a security for notes only.

In 1824 the legislature appointed a committee to consider the petitions for the banks; it made a careful investigation and reported favorably. The bill received a lengthy discussion, but finally was rejected by a vote of 46 to 23. Similar committees had the same matter referred to them in the various sessions of 1829-33; invariably the report was favorable, but a bill could never be carried thro' the Assembly[1].

In the formation of the bill first described, much study was devoted by the Committee to the foundation and operation of other states banks already organized, especially that of South Carolina. The State's banks of Georgia, Alabama, Tennessee, Louisiana, Indiana,

1 Niles', Feb. 13, 1830.

Ohio, Florida, Kentucky, and New York were also carefully examined and correspondence was entered into with officers of these banks.[1]

In 1837 the question of a State's bank was revived. The House of Delegates ordered that the Committee on the Currency "inquire into the expediency and practicability of changing the banking system of the state in such a way as might lead to the establishment of a State bank ... by a union of all such solvent banks of the state as may be willing to convert themselves into branches of the State bank by transferring to it all their stock and assets." All the banks without exception expressed disapproval of the scheme and their unwillingness to enter into it, consequently it was immediately dropped.[2]

19) The Merchants' Bank Charter.

a) Uniform Regulation of Banks.

Up to 1834 the major part of the legislation affecting

1 Report of Select Com. on a State's Bank, 1829.
" " " " " " " " , 1830, pp. 8 ff. and 48; also p. 33.
" " Com. of Ways and Means upon a State's Bank, 1833.
2 " " " on Currency, 18[illegible]

banks was the charter regulations of the separate banks; very few general laws applicable to all had been passed. The various charters differed considerably in their provisions, as has been shown. A considerable step toward uniformity was taken in 1835 when all Baltimore banks were made to conform to the charter of the Merchants' Bank of Baltimore. This charter was passed early in 1835, and new banks which were established in Baltimore after this date were simply brought under its provisions. The old banks came upon the same basis when in 1835 and following years acts were passed continuing their charters. In the case of the banks which had been continued to 1845 by the act of 1821, Ch. [illegible], in return for their agreement to construct the Susquehanna road, the new regulations could not be introduced until after the termination of the old charter.

The Marine and Farmers' and Mechanics' banks were chartered in 1804, the Mechanics' and the Franklin in 1807; the Commercial and Farmers' and the Baltimore in 1808; the Union in 1809. In return they were to become subject to the regulations

1 Md. Laws, 1834, ch. 274.
2 Cf. " " 1844, ch. 244.

contained in the charter of the Merchants bank, to relinquish the exclusive right of banking in Baltimore can be supposed additional taxation.

The more important changes which were introduced in the charter of the Merchants' bank were the following: The president and directors had to be citizens of Maryland, not only of the United States, as previously. Issues might not exceed the amount of the capital paid in; the total amount of debts exclusive of the issues were limited to the same amount. Formerly the total of debts might equal twice the capital. The president and directors in their corporate capacity could not hold any part of the capital of their bank, nor make advances on a pledge of stock, nor receive the same as collateral security for any money loaned, except for bad or doubtful debts previously contracted. Debts due to a bank by a stockholder had to be settled before he could transfer his stock, unless the president and directors allowed otherwise. Real estate falling into a bank's hands had to be disposed of within five years. The banks were empowered to issue

in Maryland, Pennsylvania, and United States bonds. Fifty stockholders controlling a thousand shares could call a general meeting of the stockholders, instead of sixty stockholders holding two shares as before.

The legislature reserved the power to regulate the denominations of bank notes. It required the banks to act as commissioners of loans when desired. In case of suspension of specie payments, it was provided that interest might be demanded at twelve per cent per annum, if the assets of the bank were sufficient to pay it; otherwise as much above six per cent was recoverable as the assets would pay. The law provided for the pro rata distribution of all assets in case of suspension of specie payments.

The country banks were likewise placed upon a uniform footing by the acts of 1836, ch. 234, and 1842, ch. 257,[1] which extended their charters to dates ranging from 1855 to 1860. All were required to send to the treasurer of the Boston Board an annual report of their condition. Through this act inspection by the state became a practice of the

[1] Mich. Laws, 1843, ch. 48

general interests, and was not lent by the state as stockholder inasmuch as the state had only subscribed in part to three of these banks. The payment of the school tax was continued as a new tax, a bonus of $1.25 per $100 of capital paid in was imposed. Notes under five dollars were prohibited and the state reserved the right to regulate the denominations of issues after 1845. The charters were to become void on failure to pay specie.

6) Increased Taxation.

An additional tax was imposed in each case as the condition of a continuation of the charter after 1845. The banks of Baltimore were required to pay in three annual instalments a bonus of $75 000, proportionate to the amount of capital of each bank. The country banks whose charters were renewed had to pay, as stated above, $1.25 for every $100 of capital paid in as a bonus to the state.

The new banks which were established during the expansion of 1829-36 were taxed, in addition to the tax for the school fund, $3.75 per $100 of capital paid in

at the same rate for additions to capital. These taxes were payable in annual instalments within three years. In one or two cases the rate varied slightly.

An attempt was made in 1835 by the municipal authorities of Baltimore to lay a tax upon the stock of banks. The legislature decided this to be in violation of their pledge given in the act of 1821, Ch. 131, to impose no additional tax until 1845. To prevent discrimination between the banks the city was also forbidden to tax banks incorporated since that act.[2]

In 1841 the state's indebtedness required extra taxation to meet its expenses. All bank stock was taxed at the rate of twenty cents on the $100, in addition to taxes on real and other personal property.[3] The banks objected strenuously to this burden both because the loan had been obtained from them early in the year and now they were taxed to pay it, and also because some of them regarded it as a violation of the state's pledge to impose no further tax until 1845.[4]

1 Md. Laws, 1834, Ch. 274.
" " , 1836, " 239.
" " , 1842, " 251.
" " , 1843, " 95.
2 " " , 1835, " 142.
3 Md. Laws, 1841, Ch. 23.
4 " " , 1821, Ch. 131.

Considerable trouble was met in the collection of this tax. To facilitate its collection banks which had branches in the state in 1841 were allowed, upon notice to the treasurer, to issue orders upon the state treasury up to the amount of each one's loan. These were receivable in payment of the direct tax upon bank stock. They were not to be received by the treasurer. Still collection of the tax continued to be impeded, so in 1843 the bank officers were required to retain from the profits and pay the treasurer the amount of the tax.[2]

However, in January, 1845, the Supreme Court of the United States decided that the banks which had been incorporated prior to the act of 1821, ch. 131, were exempt from the tax during the continuance of their charters. This freed six Baltimore banks from payment of the tax until March 10, 1846, and the money which had been paid in by them was refunded.

A tax of one-half of one per cent. was imposed on all bank stock not mentioned by the act of 1842, ch. 293.

1. Md. Laws, 1841, ch. 241.
2. " " 1843, " 289.

20) Crisis of 1834 and its Effects.

The crisis which occurred in 1834 was felt comparatively little in the East and was of short duration. It was precipitated to great extent by the hostile relations existing between the Administration and the United States bank. In 1833 when the national deposits were removed, the bank was compelled to contract its discounts suddenly and to call in its paper. The circulation of the new state banks which had been chartered were fully organized and they were ready to relieve the situation. The branches of the United States bank, too, were very stringent in their relations with the state banks, and pressed for active response to the demand for discounts. A rapid retrenchment occurred; on January 1, 1834, the discounts of the Maryland banks were $16,273,000, and the circulation was $2 071,000. Within six months the discounts had been reduced by $1,600,000 and the circulation by $700,000; the specie on hand was maintained at $630,000, or one-half the circulation. After June, 1834, the influence of the newly chartered banks began

to be felt and the discount and circulation have begun to rise. The rate of discount dropped rapidly from 30-36 per cent. per annum to 10-12 per cent. and lower, and the tightness of the money market was soon relieved.

To this crisis was charged the failure of three banks in Maryland. Maladministration was the cause of bankruptcy in each case; the removal of the national deposits from the United States bank and the resulting restriction were the occasion of it. The greatest of these failures and the most wide-reaching in its effects was that of the Bank of Maryland. It was the first bank chartered in the State and it received an exceptionally liberal charter.[1] The State was not a stockholder in it, nor did it render any annual reports to the treasurer. Its early administration was vigorous and successful.[2] During the years 1816-24, in common with the other banks, it suffered severe losses, due partly to the character of its officers who were now conducting it sluggishly in contrast to its former [illegible]

1 Ut supra, p. 47.
2 [illegible] on an act to establish a Bank, etc.
[illegible] 1795.
T. Ellicott, Bank of Maryland Cons[illegible]

policy. An investigation of its affairs was made in 1824 which revealed the fact that $100,000 had been lost. The following statement was rendered to the stockholders February 10, 1824.

Assets:		
Discounts – accommodation notes	$206,340	
Business "	49,765	$256,105
Protested notes (bad)		74,912.
Overdrafts – doubtful	$2,926	
" – bad	147	
" – good	267	3,390
Due from other banks		16,375
Specie		18,969
Real Estate		24,765
Real Stock		22,324
Other assets		6,314
		$423,154
Deduct: protested notes bad	$74,912	
Loss estimated on doubtful notes	12,770	
Banking House	13,189	
Real Stock	16,695	
Ex penses	2,528	120,194
Real value of assets		$302,960

17. Ellicott, Bank of Maryland Conspiracy, etc.

Liabilities:

Capital		$300,000
Circulation		43,736
Discounts received		6,963
Due to other banks		2,185
Deposits		56,438
Contingent profit	$13,231	
Unpaid dividends	574	
Other liabilities	27	13,832
Total debts		$423,154
Deduct: contingent profits	$13,231	
Accruing discounts	6,963	
Real value of assets	302,960	323,154
Loss		$100,000

It is thus seen that one third of the capital was lost in 1824. The bank, however, continued to pay dividends and, it was believed, restored no portion of this loss.[1] This is presumed to have been substantially its condition in 1831 when a change in the personnel of its administration occurred. [illegible]

1. T. Ellicott, Bank of Maryland Conspiracy, etc.

turn in its policy was immediately observable. The business was extended much further than its limited capital permitted. The practice of paying interest on deposits which were by contract to remain a specified time, was begun. In 1832 a deposit of $385,000 was obtained from the state. The circulation increased enormously and somewhat apprehension of a disaster arose in banking circles. At the Union Bank its notes were received in such quantities that remonstrance was made with the directors of the Bank of Maryland. However, daily exchanges were still effected. The expansion of business within two years was as follows:

	Aug. 30, 1831.	Sept. 24, 1833.
Specie	$ 2,525	$ 45,000
Circulation	213,070	620,000
Deposits	77,997	1,720,000
Discounts	500,000	1,873,000

In October, 1833, President Ellicott, of the Union Bank, refused their notes above a limited amount. The Bank of Maryland tried to procure aid from the Secretary of the Treasury, but without avail. In January or February, 1834, the Union Bank loaned it $100,000 to tide it over the crisis. However on March 22, 1834, it was compelled to suspend. An investigation revealed the following facts: About May, 1832, a partnership had been formed by the president and five directors of the bank and five other parties to deal in the stock of the bank. Between May 22, 1832, and January 22, 1833, 900 shares, out of a total of 1000, were purchased at $500 per share (par value $100) out of the funds of the bank. On March 10, the president and directors transferred these 900 shares of stock to the partnership and to pay for them, discounted their notes for $450,000, payable on presentation in money or stock of the bank. Thereupon this placed in control of the bank

1 T. Ellicott, Banks of Maryland Conspiracy, etc.

With the bank's funds they were subscribed for the major part of the stock of the General Insurance Company, and created the partners president and managers of it. A purchase of their stock was made by one of the partners for which he gave his note for $370,000 and deposited as security bonds belonging to the Bank of Maryland to the amount of $500,000. The partners were then these transactions indebted to the bank $950,000.

When the Crisis of 1834 came on, they by powers of attorney, conveyed their stock to the president and withdrew their notes from the bank; in their place was substituted his individual checks. Bank of Maryland stock was also deposited with the General Insurance Company, as security for some policies, by the president of the bank in March, 1834. The proceeds of these policies were deposited in the Bank of Maryland to the

credit of the president. He checked upon this credit to parties who used it to counterbalance obligations to the bank. On March 21, the General Insurance Company returned the stock held by them to the bank and cancelled their policies. The chief losses thrown upon the bank by the partnership were:

Loss on 900 shares of Bank of Maryland stock	$270,000
Loss on Union bank stock	40,000
" " General Insurance Co. stock	30,000
	$340,000.

Immediately after the failure of the bank its affairs were placed in the hands of a trustee with whom afterwards his others were associated. Bitter enmity existed between all concerned in the fraud and the trustees, and polemic after polemic was published. No report was rendered to the creditors for seventeen months. Finally they became so exasperated that they mobbed the houses of all the parties concerned in the partnership and there was considerable destruction of property. The mob

away for five days. Upon petition to the Legislature an indemnity of $12,358 was granted to those who suffered by it.[1]

The Trustees were in disagreement among themselves. Two of them allowed the acceptance of $400,000 from the president of the bank after the bank had been conquered, to cover his obligations. The president pledged his private estate to meet the debts of the bank, and suits against various parties were instituted for sums aggregating over $600,000, a large part of which was recovered through original influence over the County as was charged. By these means sufficient funds were collected to cover all claims against the bank. The following tables show the condition of the bank at the time of its failure (March 22, 1834), and in an imperfect way, how far liquidation had proceeded in 1837, when a dividend of ten cents on the dollar was made to the creditors.

1 Scharf—Hist. of Maryland, Vol. II, P. 182.

Statement of the Condition of the Bank of Maryland, March 22, 1834.[1]

Liabilities:		Assets.	
Capital	$300,000	Bank of Md. Stock	$400,000
Circulation	624,395	Discounts	1,371,314
Deposits bearing interest	1,069,752	Specie	32,477
Other Deposits	371,256	Real Estate	34,518
Profit and Loss	18,551	Stocks, etc.	1,243,146
Other Liabilities	735,660		
	$3,109,614		$3,081,935
		Deficit	27,679
			$3,109,614.

Condition of the bank May 20, 1838.[2]

Current funds	$131,626.	
Bills and notes*	566,152	
Due on open acc'ts	133,643	$831,421
Claims of every kind including 200 shares stock		614,474
Surplus of assets		$216,947

* Includes $400,000 passed to the credit of the bank after the failure.

1 Report of Case of Bank of Md. vs. Evan Poultney and Thos. Ellicott, Harford County Court, 1836, p. 49.

2 Ibid.

The above statements do not indicate the character of the assets. The trustees in their testimony in the case of the Bank of Maryland vs. Saml Poultney, gave as their opinion that the losses on the assets would be small. The creditors ultimately lost little. The greatest loss fell upon those who in the height of the panic disposed of their claims at forty to fifty per cent. discount.[1]

The failure of the Bank of Maryland immediately caused runs upon the other banks, but they withstood them without serious difficulty.

The Commercial Bank of Millington failed in 1836. Its nominal capital was $100,000, and it had been chartered only in 1832. Its president was a swindler who immediately before the failure of the Millington bank, organized another in Hagerstown on deposits in the old bank as capital. The amount of its assets and debts is unknown.[2]

The Susquehanna bank which had failed in 1834, revived

1 Niles, 1834, Vol. XLV., p.65.
2 " , June 7, 1834.

again; it sustained the run upon it made at the failure of the Bank of Maryland,[3] with difficulty and soon after succumbed. It must have satisfied its creditors in some way, inasmuch as it resumed business again in 1836. The loss in each of these cases was probably small since the character of these banks was generally known and their business was very limited.

The Bank of Salisbury which had commenced operations in November, 1830, was compelled to suspend for a time in April, 1834; however, it soon resumed.[1]

In the liquidation of debts to banks their notes were receivable, consequently immediately after a failure the debtors of a bank were anxious to purchase at a discount the notes of the insolvent bank to pay their obligation. On this account the legislature enacted in 1795 that whenever a bank failed to pay on demand in specie and was in condition to be proceeded against under the act of 1711, ch. 179,[2] the notes of the bank were not receivable for debt to the bank unless they had been

1 Niles', Apr. 26, 1834.
2 *Ut supra*, p. 167.
3 Niles', Feb. 15, 1834.

held by the debtor at the time of failure.[1] The same law provided that if either the affairs of a bank, if stockholders holding the major portion of the stock so desired, the chancellor or County Court might appoint a trustee, instead of the bank officials, and sufficient bond could be required of the trustee so appointed. This law was a direct outcome of the Bank of Maryland muddle.[2]

2. Crisis and Suspension of 1837.

The period 1822-37 was one of almost unbroken prosperity in the Eastern part of the United States; the difficulties of 1825, 1827, and 1834 were of short duration and their effects in the Eastern States were not so great. Several circumstances combined to produce the panic of 1837. In the first place, the long continued prosperity led naturally to a dangerous expansion in industrial enterprises of all sorts. The spirit of speculation became growing rapidly for a decade. In Maryland the special form of speculation was in the

1 Md. Laws, 1834, Ch. 365.
2 Ut supra, p. 176.

various improvement schemes which the state fostered above all things. Canals, railroads, turnpike roads, etc. were proposed and entered upon with zeal. The Baltimore and Ohio, the Baltimore and Washington, the Susquehanna, the Philadelphia, Wilmington, and Baltimore railroads, the Chesapeake and Ohio and the Chesapeake and Delaware canals, and roads too numerous to mention were all under way at this time in Maryland. They were to great extent local projects and drew their resources from within her bounds. The public lands were an object of investment generally.

Secondly, the price of cotton had been low for several years, and in 1836 the wheat crop was a failure. The balance of trade had continued against the United States for some years and specie had been sent abroad to adjust her balances.

A third cause of the crisis was the general apprehension of financial trouble at the closing of the United States bank and its restriction to enable it to adjust

itself to the new conditions.

The Baltimore, Philadelphia, and New York banks suspended specie payments on May 12, 1837, shortly after the specie circular had been put into operation which threw back upon the banks their notes for redemption. At the same time shipment of specie abroad continued, and the government made large demands upon the deposit banks. Specie in Maryland commanded a premium of six per cent. To retain it the banks were compelled to suspend.

In Maryland this was altogether a protective measure; the banks were in a sound condition. At the time of suspension they had one dollar in specie in their vaults for every three of notes in circulation, which at that time was regarded as the criterion of soundness. The ratio of specie to circulation and deposits was as one to eight. The country banks were uniformly in as good condition as the city banks. All but four of them had been recently organized and their operations

were not yet forfeited.

At the first meeting of the General Assembly after the beginning of the suspension a committee on the currency was appointed to examine into the solvency of the banks and their ability to redeem their notes ultimately, and to report whether or not they had forfeited their charters by suspending. The committee conducted its examination by means of sworn statements from bank officers in reply to certain general and special questions. These replies were afterwards verified by the committee by a personal investigation of the books of the banks.[1] The committee pronounced the banks altogether and individually without exception to be in a sound and highly creditable condition.

There could, however, be no doubt that the banks had rendered their charters liable to forfeiture. The general law of 1717, c. 14, 177, declared all charters voidable on suspension. This had been reaffirmed for Baltimore banks when by the recharter law of 1[illegible]

1 Report of the Select Committee on the Currency, [illegible]

They became subject to the eleventh and thirteenth sections of the charter of the Merchants' bank, unless the country banks by the law of 1836, ch. 239.[1] In addition to this the charters of the Frederick County, Western, Farmers' and Planters', Chesapeake, Citizens', Hamilton, and Mineral banks specifically reserved the right to revoke the charters on failure to pay in specie.

The banks expressed their readiness to resume at any time the legislature might appoint, but they feared the consequences if they should have been compelled to resume before the banks north of them to which they were heavily indebted. Maryland bank-notes were over balances by the banks of the southern states which were still in suspension. Their specie would have been drained off to pay their New York balances and at the same time they would have had no means of replenishing themselves except by purchase at a heavy premium. On January 1, 1837, the Baltimore banks were in debt to them

[1] Ut supra, p. 164.

New York and Philadelphia $73,000. The country banks owed no balances North.[1]

The committee framed its recommendations into a bill which was passed by the General Assembly in March, 1837.[2] It provided that every bank and savings institution should transmit to the treasurer of the Western Shore, once a month during the suspension, a statement under oath of its condition, and likewise to every other bank and savings institution in the state a similar statement at least once a month during the suspension. The circulation during the suspension was limited to three times the amount of specie in the bank's possession, and after resumption they were not allowed to issue more than the amount of their capital actually paid in. No notes nor certificates of deposit of a less denomination than five dollars were to be issued after May, 1838. The date for resumption was fixed at January 1, 1839, or within thirty days after resumption by the

1 State Banks, p. 708.
2 Md. Laws, 1837, Ch. 316.

banks of New York, Philadelphia, and Virginia, should they resume previously to that date. Banks complying with these conditions were freed from the penalties incurred by the suspension of specie payments and the issue of small notes. Against banks not complying the attorney general was to issue a writ of scire facias, to show cause why their charters should not be declared forfeited.

These provisions were made with a view to preparing the banks for resumption. The New York banks were compelled by a law of the state to resume specie payments by May 10, 1838. The Philadelphia banks followed in August, and those of Baltimore immediately afterward. The resumption caused little inconvenience in Maryland. Discounts were not diminished at all.

For a statement of the condition of Maryland banks in January, 1838, see Appendix, P.

22/ Crisis of 1839.

The prosperity which Lawrence Lapsley for, did not return with resumption. A year of disaster for the entire country followed, tho' the South and West especially felt its force. Maryland had become involved in a large and increasing debt through her improvement works whose cost far exceeded ~~the~~ estimation and from which no returns were being received. In many cases work came to a standstill thro' lack of funds, and thus a vast amount of public and private capital was lying locked up. Banks among the were heavy investors in this sort of stock.

The Bank of the United States, owing to its speculations, had become in a perilous condition and was laboring to produce another suspension in order to shield itself. On the tenth of October, 1839, it suspended, and all the banks of the Union except those of New England and New York followed. The failure of the Bank of the United States fell very heavily upon Baltimore where originally $4,000,000 of its total capital of $35,000,000 was held.

scribed; The whole amount was lost.

A period of stagnation followed. The loans contracted rapidly. Interest rose to twenty per cent. Just before the suspension the discounts of Maryland banks had stood at $16,400,000 and the issues at $3,400,000. By the first of January, 1840, the discounts had fallen five and one-half million and the issues one-half million dollars.

The financial condition of the State, too, was most unenviable. In the cause of internal improvement which she fostered, Maryland had subscribed almost $12,000,000 and had become involved in a debt of $5,500,000 The interest upon which she was unable at that time to keep up.[1] The public revenue paid the current expenses only. No system of direct taxation was in use in the state, and for several years the inconveniences attendant upon the inauguration of one were felt. The laws requiring a tax of twenty-five cents on the $100 of real and

[1] Scharf, Hist. Maryland, Vol. III. p. 211.

property were not enforced in some counties. The negotiation of a loan abroad failed in 1837.[1] In January, 1842, the state was driven to suspend payment of interest on its debt.[2] Between 1837 and 1842 the state borrowed over half a million dollars, principally from the banks. The suspension of interest payment thus directly affected them. At the same time lack of resources necessitated a cessation of work on canals and roads, and the state was again appealed to for help.

To assist the improvement companies which were in distress, specific powers of issue were granted in a number of cases. The Baltimore and Ohio,[3] the Annapolis and Elkridge[4] railroad companies, the Chesapeake and Ohio[5] and the Tide Water[6] canal companies were empowered to issue up to $4,000,000 paper variously denominated stock orders, certificates of debt or toll notes, secured by bonds of the state or of Baltimore or by mortgage of property. Other companies by their charters were allowed to make such issues,

1 Scharf, Hist. Maryland, Vol. III., p. 208.
2 Ibid., p. 211.
3 Md. Laws, 1840, Ch. 25.
4 " " , 1841, " 168.
5 Md. Laws, 1841, Ch. 30.
6 " " 1841, " 47

many made them without legal sanction. The orders issued by the corporation of Baltimore and the Baltimore and Ohio railroad had general circulation and were the most reliable fractional currency after the disappearance of specie.[1]

The authorization of issues of individuals upon bond was discussed in 1838. The bond proposed was to be of five times the amount issued and was to be filed with and approved by the clerk of the County Court where issued. The matter was referred to the Committee on the Currency who reported unfavorably.[2]

An attempt was made in 1842 to put an end to all issues made without legal sanction. Improvement and other incorporated companies, except such as were allowed to do so by their charters, were prohibited from issuing any sort of paper to circulate as money. The penalty was both corporate and individual liability to pay the full amount issued. (Md. Laws, 1841, Ch. 219.) At the end of 1842 still more compre-

1 Scharf, Hist. Maryland, [illegible] III., pp. 207 and 182, Chron. of Balto., pp. 491 and [illegible]
2 Orders for the Committee on the Currency, House of Delegates, 1838.
Report of " " " " 1838. [illegible]

Kindred legislation was passed prohibiting every one except banks from issuing anything to circulate as money, under penalty of twenty dollars for each offence. Traders forfeited their licenses for passing such notes.

Besides the banks, the Baltimore and Ohio, the Susquehanna and Elkridge railroad companies, and the Chesapeake and Delaware Canal company were excepted from the operation of this law.[1]

The position of Maryland banks with reference to resumption was similar to that of 1837; they were between two fires, neither Pennsylvania nor Virginia banks were paying in specie, hence they hesitated to take the risk of having their specie drawn off. A special committee of the legislature consulted the officers of the different banks in regard to resuming January 1, 1842. With two exceptions they declared their ability to resume at any time, but they unanimously preferred to wait until after resumption in Pennsylvania and Virginia. The legislature set the first of May, 1842,[2]

1 Md. Laws, 1841, Ch. 321.
2 " " 1841, " 302.

of non-compliance the bank forfeited its charter. On March 17, 1842, the Pennsylvania banks resumed, and those of Maryland followed without hesitation.

23) Practice, 1837–44.

The banks were uniformly administered with care during the suspensions of 1837 and 1839. There was a gradual expansion of discounts from 1836 to 1839 to meet the increased demand of customers when the stringency was pressing. This expansion was not, however, carried to a degree which imperilled the solvency of the banks. The increase of issues was comparatively small during the suspension of 1837, and in 1839 they were considerably restricted. Great inconvenience was caused by the calling in of paper and the reduction of discounts. Between October, 1839, and January, 1840, discounts were diminished four and one-half million dollars, or more than one-seventh. Interest rose to twenty per cent on good paper.

The banks did not sacrifice soundness to prof-

Specie was purchased by the banks at a considerable premium during the suspension. By January 1, 1838, $423,000 in specie had been purchased since the suspension began.[1] The banks admitted that in some cases they had dispersed gold amidst paper, almost entirely in the form of foreign coins, at a premium, but in every case their specie reserve had been maintained above one-third the amount of their circulation.

The dividends made at this time do not indicate excessive profits. The dividends of the twenty-five banks in operation ranged between four and eight per cent. per annum during the years 1837 and 1838. Only one division as low as four per cent. and only five as high as eight per cent. The rates of nearly all were between six and seven and one-half per cent. Nor was the surplus of any bank materially increased during the suspension. In some cases the usual rate of dividend was declared and profits falling short of this amount, the deficiency was made up from the surplus.[2]

1 State Banks, p. 705.
2 Report of Select Com. on the Currency, 1838.

The market price of the stock of the various banks at this time points to the same conclusion. They were nearly all about par; only one or two Commanded any considerable premium[1].

A Statement of the Discounts, Deposits, Circulation, and Specie of Maryland Banks, 1834–40.

Date	Discounts*	Deposits*	Circulation*	Specie*
Jan. 1834	$10,273	$3,567	$2,072	$664
1835	9,374	3,346	1,811	856
" 1836	13,579	4,967	3,052	1,180
" 1837	14,718	4,390	3,221	1,015
" 1838	15,821	4,329	3,084	1,342
" 1839	16,365	4,652	3,797	1,443
" 1840	13,934	3,379	2,937	1,222

* Three figures omitted.

During the suspension all specie disappeared from circulation and all the banks were driven to violate the law in receiving and passing notes of [illegible]

1 Report of Select Com. on Currency, 1838.

denomination than five dollars. Three banks complained that they had issued such notes, but two of them claimed that this power was given them by their charters and had not been revoked.[1] The Patapsco and Frederick County banks made this claim; the bank of Westminster also issued them. Post-notes were issued by the banks in the crisis of 1837 and 1839. The Western bank had out, in 1834, $152,700 in post notes. The law which provided for resumption of specie payments (1841, ch. 302) allowed the issue of small notes up to one-fifth the amount of the capital paid in, but issues of these notes was prohibited after November, 1842. By the law of 1844, ch. 111, notes between five dollars and one dollar were allowed to be issued up to ten per cent of the capital or at least up to five thousand dollars by each bank.

The committee on the currency investigated the charge that directors received discounts on more favorable terms than others. The banks all denied that they discounted to directors on such;

1 Report of Com. on Currency, 15 Md. Rep., 1838.

edged that they favored directors when their paper was as good as that of others, since they had difficulty in obtaining discounts at other banks. Most of the banks favored their regular patrons when their paper was unquestionable. Of the total discounts on January 1, 1837, of $15,700,000, $2,300,000 had been made to directors. The highest discount to any one director was $121,500; seven directors had received discounts over $40,000 each.[1]

The banks too almost unanimously confessed that during the suspension they had discounted to parties on condition that the notes be taken to a distance to be put into circulation.[2] A few, too, had sent out agents, chiefly to Southern points, to buy up their notes at a discount, though the extent to which this was practised was very small.[3] Although it was prohibited by their charters, the capital of all the banks chartered between 1829 and 1837, with a few exceptions, was paid partially with stock notes.[4]

1 Report of Select Com. on Currency, 1837 also State Bank, p. 109.
2 Ibid.
3 Ibid.
4 Ibid.

General permission was extended to all the banks in 1844 to make loans upon promissory notes or obligations under seal, secured by mortgage, for any period not exceeding five years at the rate of six percent.[1]

(4) Effects of the Crises of 1837 and 1839.

As a result of the depression quite a reduction took place in the banking capital of the state both by voluntary lessening by the stockholders and by failure. Four banks became insolvent, the Franklin and the Citizens' banks of Baltimore, the Susquehanna bank of Port-Deposit, and the planters' bank of Prince George's county. The closing of the Franklin bank in 1841 was only a temporary one due partly to losses and partly to fraudulent practices upon it. The public was subjected to no loss at all, and it resumed after a short time.[2]

The failure of the Citizens' bank was the most sweeping of these that occurred at this time. All nominal capital

1 Md. Laws, 1843, Ch. 269.
2 Scharf, Baltimore, p. 503.

had been $500,000 until 1843 when it was reduced to $334,000.[1] In 1844 the stockholders decided to close up its affairs, since it had suffered such heavy losses that they were doubtful of the advisability of trying to restore its capital.[2] Finally, however, it paid all creditors in full and the stockholders received for their claims eight dollars per share (Par value $10). Their loss therefore amounted to about $65,000.

The Planters' bank of Prince George's County which, after having failed in 1822 had been restored in 1832, by the desire of its stockholders decided to close up again in 1842.[3] Its nominal capital was $200,000. It was able to meet all its liabilities.

The Susquehanna bank had been very weak for years. It had suspended in 1818 while operating under the name of the Susquehanna Bank and Bridge Company. About 1824 it was revived and its name was altered to the Susquehanna bank. During the crisis of 1834 it required assistance to enable it to keep afloat. Loans were

1 Md. Laws, 1842, Ch. 76.
2 " " , 1843, " 240.
3 " " , 1842, " 204.

made by various banks of Baltimore; the Union Bank and the Bank of Maryland, before its failure, had each sent it $50,000. But even with this aid it was unable to stand. In March or April, 1834, it suspended business for a second time after a reckless attempt to get into circulation as many notes as possible. Its paid in capital was $393,319. On March 7, 1834, three or four weeks before its failure, its issues amounted to $127,925. The first statement after its failure, September, 1834, shows the circulation to have been $327,359. Likewise within the month succeeding March 7, 1834, the specie had been reduced from $74,279.07 to ninety-seven cents. The deficiency of assets on March 7, 1834, was $43,075; in September, 1834, it had increased to $273,353. After its failure and the partial settlement of its affairs, its leading stockholders decided, in 1836, to resuscitate it and pay its liabilities. In some manner it was able to struggle to its feet again, tho' the old creditors were not paid off. It was unable to stand the

pressure of 1834 and in January, 1835, it was again compelled to suspend. A special committee of the legislature was appointed to examine into its affairs, and they advised that its charter be declared forfeited.[1]

This case led to further legislation in regard to the method of procedure in closing up insolvent banks. The law of 1841, ch. 362, provided that the forfeiture, upon information that any bank of the state had refused to pay in specie its demand or bank issues, should relate in relation to said bank, should direct the attorney general to issue scire facias against such bank. If it were so, the county court or any judge of it might issue an injunction to restrain the bank from improperly disposing of its funds, and might appoint a receiver, if it thought best. If it appeared to the court that the bank had failed to pay its demand in specie, the court might or judge the charter forfeited and appoint a receiver to settle up the business. Thereupon the property of the bank vested fully in the trustees, and the court might

1 Report of the Select Committee in relation to the Susquehanna Bank, House of Del., Apr. 3, 1839.

require the bank to execute a deed of assignment to the trustees.

Owing to the fact that by the general law of 1817, ch. 177, interest at six per cent. per annum was demandable from banks not paying their debts on demand in specie during the continuation of their charters to 1845, and whereas by the law of 1834, ch. 274, the banks of Baltimore had become subject to the provisions of the Merchants' bank charter which required interest at twelve per cent. per annum, to place all the banks on the same basis, the law of 1841, ch. 41, made the rate demandable six per cent. for all until 1845.

The time consumed in the liquidation of insolvent banks was frequently very long, extending from five to fifteen years in some cases. To prevent the inconvenience and trouble of keeping bank notes this long time while awaiting dividends of the assets, the legislature enacted that record might be made of such notes in any court of the state and the notes themselves might be destroyed by the sheriff

1 Md. Laws, 1840, Ch. 85.

In 1842 a scire facias was issued against the Farmers' and Millers' bank of Hagerstown to show why it had not forfeited its charter. It had secured its charter in 1835 with an authorized capital of $200,000 of which $100,000 was subscribed. $75,000 only, the amount of the specie requirement, was paid in. A committee appointed by the Treasurer of the Western Shore to make examination, reported the $75,000 in specie to be in the possession of the bank. They had, however, allowed the bank to count $60,000 in certificates of deposit as specie. These certificates of deposit were from the Commercial bank of Millington which immediately failed. The president was the president of the new bank, and, in like manner when the Hagerstown bank was on the point of failure, he attempted to start another in Virginia. Under this scheme the Farmers' and Millers' bank got into operation with but $15,000 in specie. Its notes were sent to friends at a distance for circulation. Its career was of great resources, only by tricks and malpractice to many

ai to keep the currency afloat. Finally, however, he embezzled its funds. At one time there were only four dollars in bankable funds in the institution, and the only specie was some boxes of pennies. On January 17, 1743, the Committee appointed to examine it, reported its condition as follows:[1]

Liabilities: Circulation	£ 7,739
Deposits	3,464.54
	£ 14,303, 54
Assets: Notes of Specie bank	£ 285.
Specie	1,725.5c
	2010. 5 c
Deficit	£ 12,293, c4.

The other assets were estimated to be worthless, no mention was made of the capital stock which would increase the deficit by about £15,000. The bank was allowed to continue on condition that £30,000 be paid in specie and a specie reserve be held equal to one-third of [illegible]

1 Report of Special Com. to Leg., 1743.

issued; besides this, it had to meet the other provisions of its charter.[1]

Considerable reduction was made in the capital of other banks both on account of losses and also because in the depression succeeding the panics of 1837 and 1839, they were unable to employ profitably their entire capitals. The Chesapeake bank reduced its capital from $500,000 to $350,000; the Farmers' and Planters' from $1,000,000 to $600,625; the Farmers' and Merchants' from $500,000 to $400,000; the Eastern from $604,300 to $300,200; the Frederick County from $500,000 to $150,000; the Washington County from $250,000 to $150,000. The voluntary reduction, together with that from failures, amounted in all to $2,325,395. Of this amount at least $715,000 was due to loss. In 1844 the Merchants' bank was authorised to invest $500,000 in its own stock, since through the contracted state of trade it was unable to employ its whole capital in ordinary banking operations.[2]

1 Md. Laws, 1844, ch. 276.
2 " " , 1843, " 75.

25) Other Details.

The crises of 1837 and 1839 caught Maryland in the middle of her internal improvements and brought her perilously near the verge of bankruptcy. Immediately preceding and during the years of the suspension, the following great works were in course of construction, to say nothing of the minor roads, roads, bridges, etc., of a more local character. The Chesapeake and Ohio canal was projected to connect the Ohio river with the Potomac at tide water and a branch of it, the Tide Water canal, was intended to render its advantages particularly accessible to Baltimore. Between 1834 and 1839 the state subscribed over $8,200,000 to the stock of this project. At the same time the Annapolis canal was under construction, in which the state subscribed $600,000. Railroads were in progress from Baltimore to Washington, New York, the Ohio, and down the Eastern Shore, each of which received state aid. The state subscription in the B. and O. was $3,[illegible]; in the Eastern Shore railroad, $1,[illegible]; in the Susquehanna [illegible]

road, $2,200,000; in the Baltimore and Washington, $800,000; in the Annapolis and Elkridge $220,000.

These obligations placed the state under a constantly increasing debt, upon the interest upon which the state revenue was inadequate to pay, after providing for the current expenses. The panic, too, had rendered the negotiation in Europe of loans upon American securities impossible upon favorable terms. Immediately after the suspension of 1837, Maryland made a desperate effort to pay her creditors in gold and silver, but the extent of her obligations compelled the discontinuation of this policy. In 1842 she was unable to pay the interest due. No system of general taxation had been in operation in the state, and several years passed before the required revenue could be derived by this means. It was proposed in 1843 to dispose of the state's interest in the public works to the amount of $11,000,000, but no acceptable offer was made. In January, 1846 an attempt was made to sell the bank stock belonging to

the state which amounted to $510,466; the measure passed the House by a large majority, but failed by a single vote in the Senate. Through loans from the banks and private individuals the state was enabled to avoid open bankruptcy until the system of taxation provided an adequate revenue. Resumption of interest payment was made January 1, 1848.

For some years the state had been commuting to money the right to subscribe to the stock of the several banks and to appoint directors in them. The proceeds were applied to current expenses. This first occurred in 1827 when the Commercial and Farmers' bank of Baltimore agreed to pay $4533⅓ on condition that the state give up the right to subscribe 270 reserved shares and also the right to appoint directors. It could still, however, vote on its shares as individuals did.[1] The right to subscribe 1000 shares in the Union bank,[2] 5000 shares in the Merchants'[3] and 500 shares in the Hamilton[4] were in like manner offered by the state to the

1 Md. Laws, 1827, Ch. 215.
2 " " , 1827, " 216.
" " , 1827, " 185.
" " , 1833, Res.
3 Md. Laws, 1836, Ch. 154.
4 " " , 1836, " 198.

loans at prices ranging from six to ten dollars per share. The right to appoint directors in the farmers' and merchants' bank was given for sale to the bank for $300, the right to vote on the shares being retained.[1]

In 1741 the right against bill brokers and note shavers was renewed. The first step was to raise the cost of their license to $300 yearly. The penalty for exchanging and purchasing bills without a license was fixed at $500 for each offence.[2] The banks were released from all obligation to redeem their notes in specie or any foreign or domestic bonds.[3] The next year these conditions were mitigated to considerable extent by a reduction of the cost of license to $50.[4] This was brought about by the inconvenience arising from the mass of depreciated and uncurrent paper money, chiefly of loans of other states, which by means of the brokers could be exchanged for reliable currency.

In 1734 there was further legislation to prevent the fraudulent manipulation of stock in the several

1 Md. Laws, 1733, Ch. 115.
2 " " , 1741, " 282.
3 " " , 1741, " 302, sect. 2
4 " " , 1742, " 287.

y officers. It provides that stockholders intending to canvass the votes, must notify [illegible] one of the principal officers of the bank whose duty it was to immediately inform y the fact all the stockholders residing in the state. Upon voting each stockholder had to swear that the shares upon which he was voting was his bona fide property or was held by him in some fiduciary relation, and was not transferred to him to increase the number of votes. persons voting by proxy had to make this oath before some qualified officer of the state. Directors had to make oath that they had not acquired shares to qualify themselves for office.

The question has been raised whether the incorporation of the state can take and enforce the payment of notes made to them as payees or to any of their officers as such as payees, and also whether on such notes it was lawful for them to receive interest by way of discount or in advance, as

was the custom upon such notes. Legislation affirmative of this right was passed in the act of 1836, Ch. 272.

In 1833 an act was passed subjecting stocks and funded property to attachment and execution for debt. The proceedings were similar to those regarding real estate.

26) Increase of Banking Capital, 1843-62.

By the middle of the century the financial troubles of Maryland, brought on by her participation in the construction of internal improvements, had been adjusted, and the fruits of these public works were being realised. Her canals, railroads, and turnpikes were rapidly developing her resources and were making Baltimore the commercial center and shipping point for the coal, lumber, and agricultural products of Western Pennsylvania and the Ohio region. The Southern states which were almost entirely devoted to cotton and tobacco cul-

tore, drew from Maryland a large part of their bread stuffs. From 1840 to 1850 the South American trade of Baltimore was at its zenith.

After the industrial revival which followed the disturbance of 1837-42, had begun, the inadequacy of Baltimore banking capital became a matter of common concern among merchants and various means were adopted within a few years to stimulate its increase. Old banks were allowed to enlarge their capitals; new ones were incorporated and savings banks and institutions were changed to regular banks of discount and issue. Some savings banks were allowed the power of issue. Effort was made to secure the passage of a free banking law.

The formation of new banks proceeded gradually from 1843 to 1862; from 1853 to 1858 the rate of increase was a little greater than before. The total number of new banks incorporated, exclusive of those which had been operating before as savings banks, was seventeen and the amount of capital allowed them by their charters

was $3,000,000. One of these banks failed to go into operation and the charters of two others were repealed by the Legislature, deducting in all $350,000 from the total just mentioned. Two of these banks, representing $600,000 nominal capital, were located in Baltimore.

Seven savings institutions were regularly incorporated as banks and allowed all the privileges usually given to banks under the laws of the State. The conversion of savings banks to regular banks had occurred in two cases previously to this time. The Western Bank of Baltimore had been formed in 1835 from the Mechanics' Saving Fund Society, and at the same time the Fells Point Savings Bank was authorized to become the Eastern Bank of Baltimore; however, the latter did not change.

The total authorized capital of the seven new banks formed from savings institutions was $1,000,000, of which $400,000 belonged to four located in Baltimore. The chief advantages gained by these banks were the power of

issue and less restriction in their investments. The savings banks were generally limited to investing in bonds and securities; some were allowed to discount up to two-thirds the amount of their deposits. In making the change they became subject to the laws controlling banks generally. Two of them were allowed to continue the practice of receiving weekly deposits and paying interest on them up to six percent. The practice of paying interest on deposits left for a specified time had already become general among the banks.

It is impossible to conjecture the extent of the business done in Maryland by savings banks, except so far as their number gives an indication. The two or three that had been incorporated before 1830, when the first savings banks first became of importance in Maryland. The increase of their number corresponds in time to that of the increase of the regular banks. Up to 1842 nineteen had been established in the counties and eleven in Baltimore. In most cases they

1 Md. Laws, 1856, ch. 7.
" " , 1856, ch. 340.

Simply invested. Their deposits and had no capital stock.
Between 1742 and 1761 twenty nine more charters, eight-
y which were in Baltimore. (e) the total number a
capital limit was fixed for sixteen, aggregating in all
$2,000,000. They were required to send in reports to the
State Treasurer, and the magnitude of their operations
is unknown. A very small number of failures has
occurred, only two or three.[1]

One peculiar feature of Maryland savings banks
which appears to have developed in no other state, was
the right given to some of them to issue notes to circu-
late as money. This privilege was first conferred by the
legislature in 1774, and by 1860 nine savings banks
had procured this power. In nearly every case it was the
subject of a special act of the legislature and was not
included in the charter. The limit for issue was usually,
as for the Farmers' Bank, the amount of the capital paid in. For the
Howard Street savings bank it was fixed at one-fourth of the
deposits, and one-fourth of the deposits was not subject

1 Act of the Maryland Savings Institution in 1854 was the most important. Niles', 1834, May 10 and June 7.
Scharf, Hist. of Maryland, Vol. III, p. 176.

to withdrawal, but formed a fund for note redemption.[1] The Independent Savings Institution was allowed to issue up to $30,000, provided it kept as a redemption fund $15,000 in certificates of Maryland, Baltimore, United States, or Chesapeake and Ohio canal stocks.[2] Others were required to keep a redemption fund of state stocks or specie equal to one-half the issues. In each case the tax for the free school fund was required, twenty cents on the hundred dollars of capital paid in or of notes issued,[3] as the case might be. In one or two cases a bonus also was required, as likewise was an annual report to the state treasurer.[4]

Following are tables 1) of the new banks chartered from 1842 to 1862, 2) of those which changed from savings banks to the regular bank form, 3) of those savings banks which acquired the right to issue notes.

1 Md. Laws, 1849, Ch. 456.
2 " " , 1849, " 240.
3 " " , 1849, " 323.
4 " " , 1849, " 240.

Maryland Banks chartered 1843–62.

Name	Location	Date	Capital.
Havre-de-Grace	Havre-de-Grace	1843	$200,000
Valley *	Hagerstown	1847	100,000
Cecil	Port Deposit	1849	100,000
Farmers' and Mechanics' of Kent County	Chestertown	1849	150,000
Farmers' and Mechanics' of Carroll County	Carroll Co.	1849	300,000
Howard County †	Elliott's Mills	1853	150,000
Easton	Easton	1853	150,000
Central	Frederick	1853	150,000
Commerce	Baltimore	1854	300,000
Farmers' and Mechanics'	Greensburgh	1856	100,000
Queen Anne's Co.	Centreville	1856	100,000
Farmers' and Merchants' of Cecil Co.	Elkton	1862	112,000
American	Baltimore	1856	300,000
Patapsco †	Elliott's Mills	1856	100,000
Allegany County	Cumberland	1858	250,000
Clinton	Westernport	1858	100,000
Delaware City	Delaware City	1862	111,000
	Total		$2,956,000

* Did not open.
† Charter repealed.

Banks formerly Savings Institutions.

Name	Location	Date	Capital.
Howard	Baltimore	1854	$ 300,000
Exchange	"	1856	500,000
Peoples'	"	1856	250,000
Hagerstown Union	Hagerstown	1856	150,000
Frostburg	Frostburg	1856	100,000
Cumberland City	Cumberland	1858	150,000
Fell's point	Baltimore	1862	350,000
		Total	$ 1,700,000

Savings Banks having Power to Issue.

Name	Location	Date	Capital
Fell's point	Baltimore	1844	$ 70,000
Hagerstown	Hagerstown	1846	100,000
Fredericktown	Fredericktown	1849	. . .
Cumberland	Cumberland	1849	. . . . .
Howard Street	Baltimore	1849	. . . . .
Somerset and Worcester	Snowhill	1858	100,000
Franklin	Frederick	1860	150,000
Manchester		1860	. . .
Old Town	Baltimore	1860	. . . .

On March 7, 1854, an act was passed by the General Assembly allowing the banks of Baltimore to increase their capitals at times suiting their convenience. Not less than $100,000 might be added at any one time and the maximum amounts were as follows:

Banks of $1,000,000 capital and over might enlarge to $2,000,000;
" " $500,000 to $1,000,000 " " " $1,500,000;
" " less than $500,000 " " " $1,000,000.

Banks which availed themselves of the privileges of this act were required to report promptly any increase to the treasurer of the State and to pay the school tax thereupon.

Between the time of resumption in 1842 and the passage of the above act the city banks had added $209,000 to their capital. Within five years after the act was passed, the banking capital was increased by $1,457,000; reductions, however, offset this increase to the amount of $397,000. The total increase of active banking capital from all sources was

$2,123,000, from $4,746,000 in twenty banks in 1843 to $12,564,000 operated by thirty-one banks in 1858. From 1858 to 1862 the reduction was greater than the increase from new banks.

27) Expansion, 1845-57.

After the period of liquidation which followed the panic of 1839, the banks began again to extend their credit and in 1847 and 1848 this movement became accelerated under the stimulus of the general industrial prosperity. The enlargements of discounts proceed regularly until 1854 when a temporary reaction occurred, on account largely of the disturbed condition of financial relations with Europe. After this check the process of expansion continued until 1857. This increase of bank notes, however, to a large extent took the place of the silver coins which by 1853 had almost entirely disappeared from circulation. From 1853 to 1854 the quantity of

money in circulation was too small to perform conveniently its uses and there was a constant demand for more money.[1] The state attempted to relieve the situation by the charter of new banking companies, by allowing all banks to double their issues, i.e. to issue up to twice the amount of their capital paid in, and finally by the permission granted to certain savings-banks to issue.

The state has always insisted strenuously that the money of denominations under five dollars should be coin, and only under exceptional circumstances has it departed from this rule. In 1851 silver dollars and half-dollars had become so scarce that some of the banks had again adopted the expedient of issuing notes of denominations under five dollars and the small notes of banks of other states also circulated in Maryland in considerable numbers. The legislature in May, 1852, forbade both their issue by Maryland banks of less

1 Balto. American, March 19, 1852.
Hunt's Mag. 1 Feb. 1853.

March, 1853, under the receipt or payment of such notes of banks located outside the State under penalty of five dollars fine for each offence.[1] The inconvenience of the lack of small currency was felt on all sides and quite an agitation was aroused to procure the repeal of the law. The Baltimore City Council by almost unanimous vote requested this action, but without avail.[2] After 1854 the quantity of specie in circulation increased in a marked manner, owing to the influence of the newly found Gold mines.

Throughout the period 1843-57 the quantity of specie in the hands of Maryland banks was always large in proportion to circulation. During these years there was always an amount of specie in the possession of the banks equal to more than half the circulation, and the proportion of specie to circulation and deposits combined was never less than one to four. The following table from

1 Md. Laws, 1852, Ch. 235.
2 Baltimore American, Mar. 17, 1852.
Patriot, Jan. 24, 1853
Patriot, Feb. 1853

The reports of the banks will show their position.

Year	Circulation	Deposits.	Specie
	$	$	$
1843	1,743,768	2,977,174	2,537,822
1847	2,402,267	3,263,291	2,005,072
1851	3,532,870	5,766,234	2,732,234
1854	4,912,381	8,621,052	3,405,090
1857	5,155,096	7,611,324	3,522,561

The condition of all the banks was sound, and all redeemed their notes in specie; in Maryland bank paper was at a discount within the state. In New York the notes of Baltimore banks were at a slight discount, about equal to the cost of having them exchanged. The notes of the less well known banks of the state were quoted in New York at a small discount ranging from one half to four per cent.

The greatest abuses of the period were, first, the issues of unknown and worthless banks, chiefly

Western and Southern, which made their way into all quarters of the country, furnishing a mass of greatly depreciated notes upon the exchange of which the note-brokers alone thrived; Secondly, the amount of counterfeiting was simply appalling. The various Registers and Reporters of counterfeit notes, published monthly or quarterly, gave information to the public of the many counterfeits in circulation. These notes were circulated wherever a market could be had, and no locality, no person, was free from their presence.

28.) General Banking Law.

The call for an increased banking capital led in the early fifties to an agitation for free banking under a general law; the time seemed especially auspicious, too, for this movement, since the old charters expired in the course of the years 1854-60. The matter was brought up in the Senate in 1852 and a committee was appointed

to consider it. The committee views the proposition favorably and offers a bill which resembles in most respects the New York law of 1838.[1] The committee recites that in its estimation free access to banking privileges would have advantage and that banking operations could be conducted as well under a general law as under separate charters, and that, except where necessary, the Constitution of the State discountenances the granting of special corporate powers.[2] It was argued that the government owes to the people security from loss in the currency, the issue of which was a function of sovereignty which has been bestowed upon the banks, and the Committee could see no means of securing protection of notes otherwise than by requiring as security from all institutions having the power of issue, the pledge of property to at least an amount equal to their circulation. The policy of the banks of Venice, Barcelona, Genoa, and England, has been to invest their capital in permanent securities and to use the

1 Report of Select Com.... on a General Banking Law, Mar. 30, 1852.
2 Ibid, p. 1.

credit for purposes of discounting. Several of the United States had adopted the plan and in practice it had seemed to work well.

The innovations proposed in the bill were as follows:

1. Organization. Any number of persons might associate to establish offices of discount, deposit and issue. They must specify the name and location of the institution, its capital and the amount of each share, the name, residence, and number of shares of each stockholder, and the date of commencement and expiration of the institution.

2. The president was required to make a list of the stockholders and the number of shares held by each, and to file it in the office of the clerk of the circuit court.

3. Upon application of a thousand stockholders, any court or judge possessing equity jurisdiction might order an examination by the auditor, the court or by a special commissioner, to ascertain the safety

of the public interests, and the results of the investigation were to be published.

4. Upon deposit of United States or Maryland six per cent. bonds with a state officer, the officer was directed to sign and register notes for circulation, furnished by the bank, to an amount equal to the bonds deposited. Such notes were to be stamped "secured by the pledge of public stocks". The banks by powers of attorney were to continue to receive the interest on the bonds, unless the bank failed to redeem its notes or the state officer thought the security was becoming insufficient. After protest of a bank's notes and after an order had been issued upon the bank for their payment by the specific state officer, the officer was directed to redeem the notes and to auction the bonds for this purpose.

5. No officers were allowed to borrow.

6. Banks might increase their capital as they pleased.

7. Statements were to be rendered to the state whenever required; upon failure to give them their business operations of the bank were to cease and a receiver was to be appointed by any court or judge having an equity jurisdiction.

These were the leading provisions which it was proposed to introduce into Maryland banking law at this time. Their strong feature was the security which they offered for bank notes, the beneficial operation of which system in several states was a matter of common observation at this time.[1] However, the question of special security for bank notes was not then a sufficiently vivid one to be effective in the passage of the bill. Little or no loss had occurred in Maryland from this source for twenty years. On the other hand the deposit of bonds equal to the amount of notes issued tended to restrict elasticity of the currency; the banks would generally deposit in bonds the amount of their average issues, to

1 Cf. Report of Select Com .... on a General Banking Law, Mar. 30, 1852.

prevent the investment of so much of their funds in this manner which they might employ more profitably in discounting. Any response to the demands of industry would thus be slow and unnatural. This was the direct opposite of the object desired.

Leaving out of consideration the security of note issues, in some other respects the bill was weak. The careful provisions in regard to the payment of capital which had been found necessary in practice, were wanting, and any details or adjustment to suit special cases was impossible in a general law.

After somewhat discussion in the Senate the bill was tabled.[1] At the following session of the General Assembly the question was revived and referred to the Committee on the Currency, but no action was taken.[2]

A general banking law was, however, adopted in 1853, but it was simply a collection of the law

1 Md. Senate Journal, Apr. 13, 1852.
2 " " " , 1853, pp. 290 and 451.

of the state governing banks, with - few modifications, reënacted in a single law, and all the banks were made subject to it; both those already existing and those subsequently chartered. The occasion of the passing of the law was the expiration of the charters of twenty banks of the state. These were all continued to it, subject to the restrictions of the law. The only new regulations were the following:

1. Regulating voting.

For 1–10 shares, the holder was entitled to 1 vote each;
" 10–100 " " " " " 1 " for every five;
" 100 and over " " " " " 1 " " " five.

2) The president and majority of the directors were to constitute a board for ordinary business and discounting.

3) Discounts and loans for directors were absolutely prohibited under pain of fine or imprisonment for violation.

4) Interest upon deposits was limited to three per cent.

1 Mich. Laws, 1853, Ch. 441.

per annum.

5) The state treasurer was to have a semi-annual statement of the condition of each bank which was to be published in the county in which the bank was located.

6) The redeemed note tax was continued.

The free banking principle was entirely omitted; the legislature continued to hold within its power the power to extend banking privileges. No special provision was made for the security of bank notes. The regulations of the law were much more minute than those of the free banking bill proposed in 1852.

The act of 1854, Ch. 152, should be taken in connection with the above law. By the general law issues, as previously, were restricted to the amount of the capital paid in; by the law of 1854 banks having a capital paid in of less than $250,000 were allowed to issue up to double that amount, the

explanation of this relapse lies in the fact that the amount of currency was found to be insufficiently small.[1] The extension of bank issues was the most convenient remedy at hand for this trouble.

29) Crisis and Suspension of 1857.

The continual expansion along all lines all over the country during the years 1842-57 culminated in disaster in 1857. The speculative condition of industry stimulated the issues of the banks until in 1857 a climax was reached. This plethoric state of the currency from 1853 to 1857 was highly conducive to over-trading, over-importation, stock speculation, etc. The reaction was first felt in the Western states in the Summer of 1857 and many Eastern mercantile and commercial firms, creditors of Western concerns, soon failed. Bills on Eastern points were at 10 to 15 per cent. premium. New York was the first Eastern city affected by the

[1] Cf. Supra, p. 219 et seq.

panic y State y affairs, but until the middle y October its banks were able to resist suspension. In the middle y September a run began on the deposits y eastern banks and on the 25th y the same month the banks y Philadelphia suspended; on the 26th. those y Baltimore did likewise, and the banks y Cumberland, Frederick, and other towns followed the example soon after.[1] The deposits y Baltimore banks on January 4, 1858, stood $1,673,761 lower than on the same day y the previous year. This heavy drain upon the specie reserve reduced its amount $229,357.

The condition y the banks was sound, but suspension was a matter y self-preservation when the Philadelphia banks had suspended and those y the South were on the point y doing so. Every facility in the line y discounts within their power was rendered by the banks to relieve the situation. By the first y January, 1858, the diminution y discounts stood at $902,256, less by almost half than the

1 Bankers' Mag., Vol. XIII., p. 426.

withdrawal of deposits. The amount of circulation outstanding decreased $337,000. Even after this strain the condition of the Baltimore banks was comparatively strong.

Items of Baltimore Bank Statements, 1851–58.[1]

Date	Capital	Discounts	Specie	Circulation	Deposits
Jan. 6, 1851	$6,101	$11,783	$2,880	$2,281	$4,528
Jan. 5, 1852	7,141	11,428	1,967	2,180	3,912
Jan. 3, 1853	7,291	14,241	2,492	3,328	6,021
Jan. 2, 1854	7,592	14,969	2,648	2,956	6,962
Jan. 1, 1855	8,576	14,279	2,485	2,638	5,788
Jan. 7, 1856	9,665	16,397	2,832	3,388	6,488
Jan. 5, 1857	9,777	18,704	2,992	3,895	7,765
Jan. 4, 1858	10,160	17,802	2,169	3,658	6,082

The money market in Baltimore grew tighter toward the end of 1857 and interest was charged at one to one and one-half per cent. per month. Exchange on New York was 4½ to 5 per cent. premium. An effort was made in New York

[1] Bankers' Mag., Vol. VII., p. 655.

to resume December 13 and discounts were contracted and specie procured for this purpose.[1] The time seemed rather unfavorable since the exportation of specie at the rate of two or three million dollars a week had subsided. The importation of a few weeks previous, Baltimore bank notes were at par in Maryland and those of country banks were at very slight discount. The public seems to have exerted very slight pressure upon the banks to resume. The Baltimore Patriot, speaking of resumption said: "The banks, in fact confident, are simply prepared to meet any emergency, but as a mutual dependence and reciprocal interest exist between them and the community, neither can entertain any desire to hamper or oppress the other. Whatever advantage can arise from a state of suspension, let it be enjoyed, allowing ample time for all to participate, so far as prudence may dictate. Business must be resumed and take an active form before monetary ease and confidence fair full restoration. Viewing matters in this light we are safe in expecting that resumption of specie pay-

1 Baltimore American, Dec. 14, 1857.
Bankers' Mag., Vol. XIII., p. 583.

ments by our banks, at so early and injudicious a period as the first of January next is not contemplated.[1] The banks tho' able to resume at any time preferred to wait for a general resumption or at least until after the Philadelphia banks had resumed, the time for which had been set at April 1, 1852.[2] The Virginia banks also resumed about this time.

The greatest nuisance of the suspension was the mass of foreign depreciated paper which could only be disposed of through the bill brokers by paying a large discount. The banks would not receive it; in fact, again as in the suspension of 1814, the Baltimore banks refused to receive the notes of Maryland country banks, which not only caused great inconvenience but also reacted upon the banks causing a greater depreciation of their paper.[3] This condition of affairs offered opportunity to the banks of making arrangements with brokers and of sending out agents to buy up their notes at the lowest possible prices. The

1 Baltimore patriot, Dec. 20, 1857.
2 " American, Jan. 7, 1857.
3 " " Oct. 21 and 27, 1857.
" "

scheme was worked not only by the country banks, but also the city banks quietly sent their agents to foreign points for this purpose.[1]

In the Spring of 1858 there was an agitation for the publication of weekly statements by the banks, a custom which had been introduced in New York in 1853. At the Spring session of the General Assembly a bill was introduced to compel the Baltimore banks to publish a weekly statement and those of the counties to publish one monthly in some one paper of their respective counties. The measure failed in the House of Delegates by a vote of 32 to 28.[2]

The failure of the country banks, both of Allegany County, resulted from the crisis. The Cumberland City Bank which had been established in May, 1858, made an assignment on November 26 of the same year. Noteholders and depositors were made preferred claimants. The loss could not have been large. The report of the Directors, January, 1859, shows the

1 Baltimore American, Oct. 27, 1857.
2 " " March 10 and 13, 1858.

following items:[1]

Liabilities:

Circulation $23,757

Notes of banks & dep's 736

$24,693

Assets:

Cash $3,478

Banks 1,613

Discounts, good 12,803

Doubtful and worthless 11,603, 29,497

The Mineral bank also located in Allegany County failed October 5, 1857. The total liabilities were $199,671. The trustees paid 73½ cents on the dollar and the expenses of settlement.[2]

30) The Baltimore Clearing House.

Just at the time of resumption in 1858 the banks of Baltimore city resolved unanimously to form a

1 Scharf, Western Maryland, Vol. II, p. [illegible]. Lowdermilk, Hist. of Cumberland, p. 3[illegible]

2 Scharf, Western Maryland, Vol. II, p. [illegible]. Lowdermilk, Hist. Cumberland, p. 3[illegible]

2 Md. Laws, 1858, ch. 291.

clearing house. It began business Monday, March 7, 1858. In its purpose and operation it is very similar to those of New York, Boston, and Philadelphia, though of course in any comparison differences of detail arising from differences in the magnitude of business transacted, must be allowed for.

In their constitution the purpose of the association was stated to be "a more perfect and satisfactory settlement of the daily balances between them and the promotion of their interests". The daily exchanges were to be effected at one place and at one time and at the same place the payment of balances resulting from the exchanges was to be made. The depository bank was in no wise to be responsible in regard to exchanges and balances, except so far as balances were actually paid into the bank. The bank was not bound to admit reclamations for errors in money paid out under its seal, where the money had passed into the hands of parties not members of the association. Errors in

The exchanges and claims arising from the return of checks or other causes, were to be adjusted by eleven o'clock, A.M., directly between the banks which were parties to the transaction, and not through the Clearing House. In case of refusal or inability of any bank to pay promptly checks, drafts, or other items returned as not good, the amount of such items was to be deducted by the Manager from the settling sheet of said banks.

The officers were to be a president, vice-president, secretary, and an executive committee of five, all chosen annually. Each bank had to be represented at every meeting and was entitled to one vote. The executive committee were to investigate any matter referred to them pertaining to the banking interests of the city; they had charge of disciplining, examining, and suspending members of the association.

The association appointed one of its members a depository of such money, derived from the exchanges, as any of the banks cared to leave on special deposit, for such purpose,

and for this the depository was to issue certificates signed by the cashier or president, which might be received in payment of balances, at the Clearing House, and which were negotiable only among the associated banks. Money on special deposit was not allowed to be used by the depository bank for any purpose but the payment of certificates.

The depository bank had the whole management and did all the service of the Clearing House, paid all expenses, and was responsible for the money received by it in payment of balances due by the various banks. For these services the depository bank received annually thirty cents on the $100 of the capital of each bank belonging to the association.

Admission to the association was obtained by application to the executive committee which had an examination made of the bank applying. A three fourths vote of the association gave admission. All banks, members of the association, had to have their forms of

office in Baltimore and had to be organized under the laws of Maryland with a paid up capital of at least $200,000. An admission fee of $500 was charged.

The Cashier of the depository banks was by the Constitution the Manager of the Clearing House, and he had charge of the transaction of all business.

The method of business was as follows: The hour for exchanges was nine o'clock A. M. sharp. For five minutes tardiness or less a fine of one dollar was imposed; for the second five minutes tardiness or part of it, one additional dollar fine; for ten minutes late, the fine was three dollars. One dollar fine was imposed if errors in exchanges were not corrected before eleven o'clock. By eleven o'clock the debtor banks paid the balances due from them either in money or certificates. One dollar fine was payable for failure to appear at this time. The creditor banks at half-past twelve o'clock P. M. could receive the balances due them in money or

certificates at their option, provided by that time all the debtor banks had paid. Any member unable to pay its indebtedness to the Clearing House on any day, had to return all checks, drafts, notes and bills of exchange that had been presented to it that day, and the Manager returned them to the members from whom they were received and they reimbursed the Clearing House to that amount.

If any member failed to pay its balance by eleven o'clock and did not return the checks and other items received, the Executive Committee and the bank were notified by the Manager, and if by half-past twelve the balance was not paid, the bank was ruled out by default, and the other banks immediately reimbursed the Clearing House to the amount of their balances against the defaulting bank for that day.

The chief point of difference from the New York plan was the appointment of one member of the

Association the Depository banks, in whose banking rooms the transactions of the Clearing House were performed and whose Cashier was, ex officio, Manager of the Clearing House. The smaller number of banks clearing and the smaller amount of business cleared in Baltimore permitted of this less specialized form of organization.

No clearing-house loan certificates were issued in Baltimore in the crisis of 1861.

No indication of the extent of clearings before 1864 can be given. Statements of these facts were never published by the Clearing House at the time and the records of these years have been destroyed.

3) Suspension of 1860.

The recovery from the crisis of 1857 was very rapid; the first nine months of the year 1860 was one of the most prosperous seasons in our history. The grain crops were

gold; the cotton production was unparalleled. After the Fall election, however, the attitude of the South created great alarm, and the previous expansion gave place to contraction and preparation for the threatening emergency. Diminished imports brought considerable gold into the country. The banks were strengthening their position. A change of tariff reduced the revenue from this source, and to meet its needs, the government issued $250,000,000 in treasury notes.

The commercial and financial relations of the Northern cities with the South were in a very uncertain condition, and Northern creditors were eagerly trying to insure themselves by early settlements of their affairs with Southern correspondents. Immediately after the election the Southern banks felt the withdrawal of their gold, and it was thought that political motives had much to do with the removal of their specie resources to Northern banks. In many cases the Virginia banks decided that

their commercial, financial, and political interests demanded that they stop. This blow to the North by suspension, which they did November 20. Other Southern banks followed on succeeding days.[1]

This course necessitated the same action upon the part of Baltimore and Philadelphia banks, which were heavy creditors in Virginia and elsewhere in the South. They accordingly suspended November 22. Such a contingency had been anticipated and preparation had been made for it in Baltimore, but the restriction of the banks was inflicting upon the commercial community the greatest hardships. For several days preceding the suspension it had been almost impossible to negotiate loans upon any terms.[2] This stringency was alleviated after the suspension as far as circumstances permitted. This is shown in a comparative statement of the Baltimore banks for January, 1860, and January, 1868.

1 Bankers' Mag., Vol. XV, p. 485.
2 Baltimore Patriot, Nov. 22, 1860.
" American, " 22, 1860.

	Jan. 1860.	Jan. 1861.
Capital	$ 10,327,120	$ 10,467,120
Investments	674,300	674,300
Discounts	17,533,727	17,767,936
Circulation	3,182,106	2,670,296
Deposits	7,351,519	7,656,797
Specie	2,360,770	1,756,522

During February and March, 1861, the banks of both Philadelphia and Baltimore prepared for resumption, but the suspension continued in the South, and rendered the resumption of specie payments in Maryland hazardous. Affairs generally, however, soon wore a much more serious aspect, and resumption was indefinitely postponed.

In the fall of 1861 the Government borrowed $100,000,000 in gold of the banks. It was desired by the banks that the Secretary of the Treasury issue

this money with them and call for it as need required; this, however, the Secretary refused to do, and the specie of the banks was drained in paying the instalments of the loan. Again, the Secretary had no strong policy to put forward for the government and matters went from bad to worse. The drain of gold continued throughout November and December, 1861, and the banks generally drifted into suspension toward the last of December without great resistance.

Gold immediately rose to one or two per cent premium. The quantity of bank paper and treasury notes, perhaps $400,000,000 in all, drove the gold from circulation. The government, to tide it over the crisis, began in April, 1862, the issue of legal tender paper money. The premium on gold increased and exchange became very high. By August, 1862, all specie had disappeared from circulation. Further issues of legal tender notes followed, and the inflation proceeded until gold was at 140 to 150 in

sales in 1863 at 200 to 220. American bonds could not be sold abroad, and to create a market for them the National Bank act was passed, February 25, 1863. It did not become operative until the next year.

After the issue of government-legal tender notes had begun, the banks redeemed their notes on this government paper when required, but the restoration of specie payments did not take place until 1879.

The practical suspension and the entire disappearance of metal money as an every day necessitated legislation in Maryland to prevent the inflation of the penalty prescribed for suspension-forfeiture of charter — and to provide a small currency. In May, 1861, it was made legal for the banks to use notes or certificates of deposit less than one dollar up to ten per cent. of the capital paid in, though any bank might become

in this manner. The act only applied to banks already having the power of issue, and its duration was limited to five months after the session of the General Assembly in 1864.[1] The following year (March, 1862) this law was repealed and the banks were allowed to issue up to twenty per cent. of their capital paid in in notes under five dollars, but none were to be under one dollar in denomination.[2] This law was to terminate May 10, 1864. By the law of 1864, Ch. 13, the privilege was continued indefinitely.

Article 12 of the Code of General public Laws, rendering banks suspending liable to forfeiture of their charters was amended by the act of May 3, 1861,[3] so that no corporation authorized to issue notes for circulation was subject to any forfeiture or penalty for not redeeming in Specie before March 11, 1862. On March 7, 1862, the exemption was extended to March 11, 1864.[4]

1 Sess. Laws, 1863, Ch. 11
2 " " 1862, " 137.
3 " " 1861, " 6.
4 " " 1862, " 178.

The great number of counterfeits current led to the repeal of the old law and the substitution of one more carefully worded so as to prevent evasions. The penalty was continued at two to ten years in the penitentiary.[1]

During the first year of the suspension the discount-line of Maryland banks advanced about one and one-half million dollars, though the amount of circulation was decreased. During 1862, in the midst of inflation, Maryland banks expanded beyond prudence. The discounts increased $6,500,000 within the year; the circulation jumped up $2,400,000 and the deposits $6,100,000. The quotations of stocks for January, 1862, and January, 1864, show the effects of the expansion. Whereas in 1862 the stock of most of the Baltimore banks was more or less below par, by 1864 the increased profits from a large circulation had raised them all to a premium. The same process continued throughout

1 Md. Laws, 1862, ch. 72.

1863, and in January, 1864, the Baltimore banks were in a condition which would have been risky under any other circumstances than in a general suspension. Loans were increased $2,200,000 during the year, and circulation and deposits increased proportionally. A comparative statement of their condition in January and July, 1863, and January, 1864, is as follows:

Resources:	Jan. 1863	July 1863	Jan., 1864
Loans	$18,884,027	$19,780,917	$21,058,135
U. S. Stocks	2,352,522	3,177,201	3,630,775
Real Estate	414,450	360,526	444,154
Other Stocks	937,039	49,014	1,488,702
Due from banks	1,701,512	1,443,308	1,654,096
Notes of banks	1,718,238	1,800,485	2,555,780
Specie	1,810,663	1,967,179	1,553,495
Total	$27,818,451	$28,578,630	$32,385,137

1 Bankers' Mag., Vol. XVIII., p. 771.

Liabilities:	Jan. 1863	July 1863	Jan. 1864.
Capital	$10,369,275	$10,369,275	$10,369,275
Circulation	4,562,875	4,800,760	6,421,654
Deposits	9,917,620	10,522,446	11,410,590
Due to banks	1,800,779	1,756,622	2,469,361
Profits	1,231,772	1,173,667	1,742,467
Miscellaneous			36,364
Total	$27,716,451	$27,572,630	$32,325,137.

3?) Effects of the National Bank Act.

The passage by Congress of the National Bank Act, or, as it was entitled, "an act to provide a national currency", primarily a financial scheme to float bonds necessitated by the Civil War, brought before the state banks the question of reorganization. The defects and incompleteness of the first act passed in February, 1863,[1] rendered its effect upon the state banks comparatively slight. In Maryland but one bank, the Fell's Point, seeks permission of the Legislature

1 12 Statutes at Large, 665.

to corporations under it.[1] The same process in June of the following year[2] was much more effective in producing the desired results, and finally by the taxation of all state bank notes at ten per cent. on July 1, 1866,[3] nearly all the old banks were driven over to the form of national banks.

The question was raised whether or not the state banks might change to national banks without the state's permission. The Tells Point bank had taken the precaution to secure this by a special act of the legislature. The other banks remained under their state charters until after the doubt was put at rest by the passage of an "enabling act" by the General Assembly on March 24, 1865.

The matter was complicated by the fact that the state held considerable bank stock and was otherwise the creditor of the banks. Further, the state system of free public education was largely dependent upon the receipts from the free school tax

1 Md. Laws, 1860, ch. 307.
2 13 Statutes at Large, 99.
3 13 " " " 484.

upon loans of twenty cents on the hundred dollars of capital paid in. In view of these facts the General Assembly was not eager to allow the banks to pass from its control. In 1864 a joint committee of both houses was appointed to make inquiry in regard to the banks organizing under the national banking act.[1]

The committee called in the testimony of the Hon. Alexander Randall, the Attorney general, on the disputed points. First, in regard to the state's claims upon the banks, he decided that as stockholder the state had no priority over other stockholders or creditors in event of failure or liquidation. As creditor in other claims he argued that the state had priority by virtue of its prerogative as sovereign, which priority would be lost if the banks became subject to the national law; furthermore the state would have no control over them.

The committee asked whether or not the

[1] Journal of Md. Senate, 1864
Proceedings of House of Delegates, 1864.

state had power to prevent the reorganization under the national act. Any such action the attorney general thought would be an attempt to nullify a law of Congress, and hence unconstitutional. The only influence which it could exert was by voting its shares as stockholder when the stockholders in general meeting decided what course they would take. Likewise in regard to the enforcement of the school fund tax from the converted banks, the principle established in the leading case of McCulloch vs. Maryland was conceded to remove all power of constraint on the part of the state.[2]

Being thus unable to prevent the conversion of the state banks into national banks, the legislature in accordance with the advice of the committee, passed March 24, 1865, "an act to enable any bank, savings institution, or savings bank of the state to become an association for the purposes of banking under the laws of the United States.[3] This privilege was

1 4 Wheat. Rep. 436.
2 Communication from Hon. Alex. Randall to Gen. Essen, Mar 7 1865.
3 Md. Laws, 1865; Ch. 144.

conferred upon condition that banks making the change first comply with all the requirements of the act of the first Session of the 37th Congress of the United States, entitled "an act to provide a national currency, etc. A bank was allowed to change if the owners of three-fourths of the capital stock expressed their consent in writing to that effect, or if at a special meeting of the stockholders called for the purpose, voters holding two-thirds of the capital stock so desired. At this meeting one vote was allowed to be cast for every share, and the state treasurer voted the state stock. If the stockholders decided to change, the directors or a majority of them could execute the organization certificate and such other papers as were necessary, and could perform all other acts necessary for the conversion.

The bank was ordered to present to the clerk of the Court of Appeals of Maryland a certificate from the Comptroller of the Currency that the bank con-

cerned had become a national bank; this certificate was to be recorded by the clerk and a copy sent to the Governor who was to have it published in the locality of the bank. Its charter was considered to be surrendered and its corporate powers to cease, though it could continue to use its corporate name in closing its affairs. No state bank money was allowed to be reissued for more than one year after the surrender of the charter.

Contrary to the opinion of the attorney-general, all taxes were to be continued as before. All the assets without further transfer were to rest in the association, and it became responsible for all debts incurred previously to the surrender of the charter. Destruction of all plates and dies was provided for.

Within the year 1865 twenty four banks passed over to the new form; only six state banks were left in 1867; these continued in existence as state banks until after 1871 when at different intervals all became national

banks except two, the People's of Baltimore and the Hagerstown. A small number of savings banks, perhaps two, also changed over in 1865.

Altho' in the enabling act the state tried to continue in force the taxes which had formerly been collected, she was unsuccessful. By 1867 the school fund tax had dropped from about $35,000 to $3005 and the banks refused to pay it.[1]

In 1866 it was decided to dispose of the state bank stock amounting to $463,406,[2] and the Governor, Comptroller, and Treasurer of the state were authorised to sell it at not less than its parvalue and invest the proceeds in funded debt of the state.[3]

33) Conclusion.

In the economic condition of Maryland after the close of the Revolutionary war is to be found the natural explanation of the introduction of banking in this state. In the face of an important and rapidly developing com-

1 Report of Comptroller of Currency of Md., 1867.
2 Comptroller's Report, 1867.
3 Md. Laws, 1866, ch. 170.
" " 1872, p. 275.
Bayard's [illegible]

merce and feeling the inconvenience of a very limited circulation of foreign coins and depreciated American paper money, the state legislature persistently refused further issues of bills of credit. Under such circumstances the citizens turned to a study of other commercial states, Scotland, England, Holland, and Genoa, and resolved that it would be expedient to establish a bank. This close relationship between the industrial development of the state and her banking facilities is a noticeable feature of Maryland history. The periods of banking expansion have in each instance been times of corresponding industrial development and prosperity, and enlargement has been in response to direct industrial needs. Very few speculative attempts of individual capitalists have occurred.

The development of the resources of the state was the object of a general extension of banking advantages to the counties in the years 1810–12. In this too rash haste was made; some of the localities chosen were

not able to support independent banks; a broad extension of branch banking, employing an amount of capital equal to the needs of the community and at the same time reducing the expenses to a minimum, would doubtless have sufficed. As it was, the banks were driven into dangerous practices, and many of them went down in the financial convulsions of 1814-20.

This close relation of the banks to the economic development of the state comes out again strongly in the part they played in the internal improvements of the state. When they entered actively into the work and actually became jointly incorporated as turnpike road companies.

Maryland banks were rendered of a public character in two ways; first, by a state subscription to the capital stock of the early banks and the reservation of the privilege to subscribe in all; and secondly, by providing an opportunity to all to subscribe to the stock of banks at the time of their organization, by

allotment of their stock in Baltimore and the various counties for subscription. This caused it to occur as soon as the general extension of banking reduced the monopolistic element to a minimum. The further step of free banking under a general law was not taken in Maryland[1]; the preference to retain close control by necessitating special legislative enactment to suit the requirements of each case. Although under these conditions opportunity for political bargaining was offered, nevertheless no evidence has been found indicating that other considerations than the public interest were of weight in the decision of measures brought before the legislature, except in the first few years of banking in the state.

The chief elements of the system appear in the first charter; 1) special legislation in each case, 2) broad regulations, few restrictions, freedom of action. In the first place the ideas adopted were not native of Maryland, but had been worked out

1 The Banking law was passed in 1870.

elsewhere especially by the Scotch banks and the first banks of the United States. In the adaptation of principles to suit Maryland conditions, the state's own experience was the leader, no changes were only introduced when deficiencies appeared under the actual working of the system. Very little was developed that was new, but at the same time disastrous experimentation, under which other states suffered so much, was avoided. No radical steps were taken to cure evils; even the best of more progressive states was not followed in the adoption of advanced ideas.

The lack of uniformity in the regulations controlling the various banks was for a long time a source of confusion. This was partially remedied by making all the banks subject to the fundamental principles of the Merchants Bank of Baltimore in 1835, and further by the passage of a general banking law in 1852. State inspection for public security alone, and not by the state as stockholder, was a reform of long after it

between adopted by other states. Stockholders and directors, except in cases of mal-administration were never made personally liable, except to the extent of their shares, and thus far only were there any preferred claimants in case of insolvency. Note issue upon the deposit of bonds was rejected to preserve a greater elasticity of the currency. The practice of daily settlements among the Baltimore banks rendered necessary on the part of the banks the exercise of the greatest skill and care in their investments, and the brisk competition between each other and the branches of the two United States banks, for a large part of the time, was most salutary.

In the performance of their functions they responded to the needs of the state at all times as well as might be made. The circumstances. Maryland's central situation as debtor of the South and debtor of the North must be constantly borne in mind in understanding the position of her financial affairs

Institutions. But these failures of any great magnitude have occurred, those of the city and Citizens' banks and of the Bank of Maryland, and in each of these cases the loss ultimately fell upon depositors or noteholders. The assets together with the amount of stock were more than enough to pay all liabilities. Many of the early country banks were thinly out because the field of investment was poorly chosen; the communities were unable to support them. Since 1820 the character of banking in Maryland has been very conservative, and especially so in Baltimore. This was evinced by the fact that from that time to 1864 but five failures occurred in the city. To this strongly conservative spirit was doubtless due to large extent the success of a system which owing to its freedom from restrictions, proved efficient under the circumstances.

Appendix I.

Maryland State Bank Statistics.

Table I.

The Circulation and Deposits of Baltimore State Banks (except the Bank of Maryland), January 1, 1817, to January 1, 1830.

Jan.	Circulation.	Deposits.	Total.
1817	$2,727,230	$1,107,560	$4,735,790
1818	1,742,780	1,697,290	3,440,070
1819	1,662,320	1,247,470	2,910,790
1820	1,229,540	1,226,690	2,456,230
1821	1,020,020	1,382,250	2,402,930
1822	1,214,030	1,533,440	2,747,470
1823	1,031,750	1,261,330	2,293,080
1824	1,113,750	1,441,160	2,554,910
1825	1,537,610	1,521,750	2,939,460
1826	1,519,190	1,528,220	3,047,410
1827	1,347,690	1,629,620	2,977,310
1828	1,272,190	1,724,160	2,996,350
1829	1,422,990	1,633,010	3,055,920
1830	1,299,760	1,344,770	2,644,530

Table II.

Totals of Resources and Liabilities of Maryland State Banks, 1834–64.

Date	Banks	Loans & Discts.	Stocks	Due from bks.	Real Estate	Notes of bks.	Specie funds	Specie	Other Res'es
1834	8	$8,530 786	$497 295	$430 239	$419 397	$924 045	....	$375 505	$ ..
1836	14	9,520 683	1,705 706	1,664 711	[illegible] 903	715 300	......	972 090	103 650
1837	21	14,986 487	1,677 515	1,346 557	530 141	1,521 432	......	1,139 347	65 543
1838	22	15,813 006	1,505 641	2,806 764	541 687	1,452 146	......	1,259 908	57 649
1839	22	15,844 163	1,894 352	1,433 001	553 818	1,358 239	......	1,679 066	148 910
[1840]	21	13,573 642	1,910 092	1,611 042	505 290	1,116 667	......	1,319 559	72 555
1841	21	12,554 884	934 953	2,007 906	504 433	1,022 382	......	1,556 020	137 311
1842	20	11,442 062	1,673 811	1,551 242	594 771	822 588	......	1,553 621	157 522
1843	20	[illegible]	1,009 449	857 213	596 596	576 400	......	2,537 822	95 130
1844	20	10,104 229	1,540 833	542 712	623 950	620 853	......	3,790 905	195 808
1845	20	11,242 172	1,215 146	1,000 531	636 137	666 245	......	2,200 580	82 661
1847	14	11,503 278	726 074	619 653	432 066	636 273	......	2,005 078	.....
[1848]	20	13,291 129	706 173	764 506	527 530	609 456	$99 725	2,244 884	4 302
1849	20	12,384 750	824 269	903 234	450 736	743 339	24 000	2,145 013	1 132
[1851]	21	13,[illegible]	466 020	1,008 [illegible]	384 760	790 505	59 789	2,468 235	14 082
[1852]	23	14,[illegible] 479	946 690	1,144 077	421 248	965 795	76 796	2,738 734	53 758
1853	19	15,135 587	628 512	1,991 102	328 813	1,100 380	127 143	2,838 071	21 987
1854	25	18,358 441	825 339	1,621 036	321 007	158 827	1,595 042	3,405 090	28 256
1855	29	17,588 718	617 245	1,440 609	333 930	1,566 361	46 518	2,427 225	595 223
1856	31	20,616 005	644 600	1,649 166	318 896	1,482 744	82 961	3,392 101	648 890
1857	31	22,243 554	758 278	1,794 791	402 217	1,666 663	9 168	3,522 561	23 528
1858	31	21,204 111	644 318	3,226 112	417 925	1,473 413	3 164	2,614 728	14 741
1859	32	21,854 434	792 465	1,017 641	424 825	64 763	1,521 663	3,120 011	67 574
[1860]	31	20,[illegible]	248 223	1,657 016	505 174	1,297 218	......	2,779 418	41 500
[1861]	31	22,391,[illegible]	635 685	1,894 439	539 329	[illegible]		[illegible]	-
1862	28	17,440 111	856 425	1,837 068	540 089	1,469 794	120 476	3,682 471	8 420
1863	32	23,419 664	3,899 242	2,553 068	494 035	2,025 970	130 656	2,750 183	81 760
1864*	16	24,058 135	5,119 477	1,654 096	444 154	2,555 7[illegible]	......	1,553 495	

* [illegible]

Table II (Continued.)

Liabilities:

Capital	Circulation	Deposits	Due to Banks	Undivided Profits	Date
$ 5 270 091	$ 1 433 698	$ 3 125- 635-	$ 596 236	- - - - -	1834
7 662 639	1 923 055-	3 264 186	2,004 560	- - - - -	1836
10 438 555-	3 210 835-	4 240 477	1,443,476	705- 139	1837
11 249 319	3 602 085-	3 401 288	2,689 478	1,105- 065-	1838
11 419 999	3 798 067	4 219 932	2,151 469	1,138 590	1839
10 526 494	8 079 241	3 186 438	1,759 174	765- 888	1840
10 214 468	2 529 643	3 136 979	1,766 615-	225- 529	1841
10 709 332	1 832 420	2 934 824	1,231 285-	1,049 480	1842
9 746 279	1 743 [illegible]	2 977 174	753 449	932 529	1843
9 540 374	2 273 556	4 231 664	1,228 597	929 436	1844
8 358 332	2 607 682	3 947 113	1,360 297	914 811	1845-
7 444 004	2 400 267	3 863 291	922 731	- - - - -	1847
8 541 230	3 [illegible] 481	4 211 298	1,667 249	3 556	1848
8 557 732	2 780 476	3 944 162	1,582 437	3 142	1849
8 704 711	3 041 402	5- 183 609	1,732 213	3 178	1850
9 115- 156	3 532 270	5 406 834	1,928 214	3 345-	1851
8 664 980	4 254 412	7 282 355-	1,676 361	131 734	1853
8 558 409	4 [illegible] 381	8 621 052	2,348 741	71 645-	1854
10 411 274	4 118 147	7 267 [illegible]	1,511 976	[illegible] 230	1855-
11 202 606	5 247 923	8 370 345-	1,924 756	438 108	1856
12 297 276	5 155- 646	9 611 324	1,295- 224	679 701	1857
12 451 545-	4 041 621	7 541 186	1,194 697	549 933	1858
10 560 635-	3 977 971	9 022 664	1,725- 209	417 667	1859
10 [illegible] [illegible]	4 [illegible] 229	8 274 180	1,324 746	357 195-	1860
10 567 121	3 558 347	9 026 162	2,102 920	426 434	1861
12 158- 974	3 744 395	7 637 602	1,167 555-	1,631 140	1862
12 112 369	6 649 030	13- 777 837	1,799 227	1,485- 750	1863
10 305 295-	6 421 059	11 410 590	2,469 361	1,778 832	1864

Appendix II.

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Appendix III.

Vita.

Alfred Cookman Bryan was born in Camden, Delaware, on the 21st of November, 1871. His early years were passed in Delaware and Maryland. He prepared for college in the public schools of Wilmington, Delaware, and under a private tutor. In the fall of 1889 he entered the Johns Hopkins University, from which, three years later, he received the degree of Bachelor of Arts. He continued his studies at the Johns Hopkins four years longer, and pursued graduate courses in Economics and History with a view to taking the Doctor's degree.